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ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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HIGHLIGHTS OF BUSINESS IN DECEMBER

Business ended 1949 on a note of optimism, as a strong last-minute shopping rush raised sales to a high level. Further increases in industrial production also contributed to the general upsurge in activity, with steel output set at well over 90 percent of capacity and automobile production once more getting into high gear. Construction continued its record-breaking pace to set an all-time high in 1949.

The general price level showed little change, although farm products and food prices continued to edge downward during the first part of the month. As a result, the parity ratio dropped 2 more points to 98, the first time since the prewar period that it has fallen below 100.

Christmas Trade Brisk

What started out to be a sluggish Christmas shopping season ended up in a wave of buying that brought dollar sales up almost to the level of the 1948 record season. Department store sales, which at the beginning of the month had been running 8 percent below the corresponding period of 1948, caught up steadily to last year's level as the month progressed, and in the last week before Christmas surpassed sales in the similar week of 1948 by 14 percent. The net result is that department store sales this last December ended only 3 percent below the record of December, 1948. For the year as a whole, department store sales were 5 percent below the 1948 level.

Greatest gains on a year-to-year basis occurred in the Southeast, Midwest and New England regions, according to Federal Reserve District breakdowns. Sales in the Middle Atlantic and North Central states appear to have fared a bit worse than last year, though the only area where they fell as much as two percent was Cleveland, partly the result of a five-day transit strike in Cleveland itself.

Nonfarm Employment at Year's High

Nonagricultural employment in December reached a high for the year, 51.8 million. This is about 150,000 above November's level but is slightly below the 52.1 million nonfarm workers in December, 1948.

Total employment dropped by about a million as a result of a seasonal withdrawal of farm workers from the labor force. At 6.8 million, farm employment in December was 14 percent below the previous month and 8 percent under December, 1948. Unemployment in December con-

tinued at about the November level of 3.5 million. The slight rise of 80,000 that was reported is well within the range of sampling variation.

Production and Construction Up

Industrial production rose nearly 3 percentage points in December, according to preliminary estimates, as manufacturers rushed to replenish inventories depleted by the recent strikes. By the end of the month, steel ingot output was running at 93 percent of capacity, and production of fabricated iron and steel products was back to pre-strike levels.

Although over-all industrial production in 1949 did not exceed 1948 or 1947 levels, the year witnessed a number of production records. The automobile industry had the best year of its history, turning out over 6,200,000 vehicles; this exceeds by far the previous high of 5,360,000 vehicles produced in 1929. Other industries to show production increases were electric power, nylon, and television. Among lesser specialties, frozen orange juice grew by leaps and bounds, quadrupling the 1948 output.

The year also witnessed new peaks in the construction industry. Over one million new nonfarm dwelling units were constructed during the year, exceeding the 1925 high by 7 percent and the 1948 level by about 8 percent. The more than \$19.3 billion of new construction put in place in 1949 is also an all-time high, exceeding the record level of the previous year by 3 percent.

Foreign Trade Balance Continues Decline

The nation's merchandise export balance declined in November, by virtue of a 6 percent rise in imports and a 1.6 percent decline in exports. At \$559 million, November imports were 9 percent above the level of the first ten months of 1949 and just about equal to the monthly average in 1948. Most of the rise in imports occurred in coffee and sugar, commodities imported from countries that had not devalued their currencies in September.

The excess of merchandise exports over imports in November declined to an annual rate of \$2.9 billion, continuing the steady decrease since early 1947. This is considerably below the \$5.5 billion merchandise balance in 1948 and the annual rate of \$5.9 billion in the first ten months of 1949, and in fact is the lowest point in the postwar period with the exception of October, 1946.

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Future Bias Toward Deflation

Fashions in ideas run strong. Frequently an idea whose factual support is very limited or temporary in character gains supporters to the point where it becomes practically the accepted doctrine of the day.

Currently in vogue is the notion that our economy is subject to a long-term "inflationary bias." According to this view, the growth of "big government" ensures what even otherwise looks like a long-time uptrend in prices. Currently a \$5 billion Federal deficit is pointed to as "handwriting on the wall." For the future it is felt that whenever a serious decline in business threatens, the government will step in and prevent it from gaining momentum by a series of inflationary measures financed through ever-larger deficits.

It is a line of thinking that fails to separate temporary factors, like those that follow every war, from real long-term economic forces, which may be operating in quite another direction. For example, any gradual long-time upward trend in prices, such as might be thought to prevail aside from the special effects of war and post-war inflation, is of little consequence for inflation or deflation. In the latter context, the important shifts in price level are those occurring in a limited period, say, something less than a decade. Again, the effects of government action may not be so clear-cut as is suggested. Brief consideration of the possibilities will be enough to make the point.

Government Deficits Not Inflation

Government programs financed by deficits are inflationary only under conditions of capacity production and full employment. In a period of decline, they may tend to sustain rates of activity, but will not necessarily hold the line, and certainly will not drive prices up.

The shift in the government budget from a surplus of over \$8 billion in fiscal 1948 to a deficit of over \$5 billion in fiscal 1950 had little effect beyond that of maintaining the general level of business activity. Unemployment has about doubled during this two-year period. Prices have receded from the mid-1948 peak, and now average a little lower than two years ago.

Currently, there is no real prospect of inflation even on an optimistic appraisal of business trends. A temporary bulge in prices is possible next spring, when the peak

rate of spending from the large refunds to veterans is felt. (But keep in mind that these refunds are outside the budget and do not represent part of the government deficit.) If such a bulge materializes, it seems unlikely to carry the general price level back up to the high of mid-1948.

The economy is now in a position to meet all demands by expansion of output rather than to curtail them by stepping up prices. The flow of basic materials is generally adequate, and in most industries capacity is sufficient to ensure deliveries in line with current rates of consumption. The labor force also displays adequate margins. Its growth during the last two years has only added to unemployment; and a mere count of the unemployed does not reveal anything like the full supply of labor available. Moreover, competitive forces have not yet become fully effective throughout the economy; and continuing improvements in efficiency of production and distribution will help to relieve pressure on prices.

As for the government's part in this postwar situation, it must be kept in mind that present programs have grown out of postwar fears and tension, or out of real needs accumulated during the war period, rather than from any economic plans or theories. When it is remembered that military and other war-connected expenditures, such as foreign aid, veterans' payments, and interest on the public debt, now make up over three-fourths of the budget, the essential nature of the situation is more clearly understood. Agreement on such programs might be part of an anti-communistic bias, but cannot be considered an inflationary bias.

Combined with the large increases in expenditure programs was a reduction of over \$4 billion in tax receipts. Part of this decline came by way of reduction in personal income taxes. A still larger part resulted from the decline in corporate profits taxes, due mainly to the disappearance of the fictitious profits based on inventory revaluation. In other words, the government surplus was in part based on fictitious profits arising out of the post-war inflation; but with inflation now gone, the loss of temporary taxes helps to make a deficit, which in turn is supposed to be inflationary. It is a paradox of inflation fears.

A condition of high-level prosperity with relatively stable prices is the most ardently hoped for state of economic affairs. When, in such a situation, a small deficit arises from popular pressure for high expenditures and low taxes, the public is merely legislating itself into a sort of economic bliss, and not displaying any desire for further inflation.

Longer-run Outlook Deflationary

During boom times, the economy has a deflationary rather than an inflationary bias. The prospect is that the forces supporting the boom will sooner or later be dissipated, letting us down into the next depression. It is, in fact, lack of restraint during the boom that makes the decline inevitable.

This applies to government construction as well as to private investment. Typically, popular pressure for certain types of public works is strongest during periods of prosperity. The need for public buildings like new schools, hospitals, and post offices tends to coincide with construction of family dwellings. People don't want schools ten or fifteen years hence when they might be needed to stabilize the economy; they want them now, while their children are growing up. They don't want

(Continued on page 6)

RADIO AND TELEVISION

When the first officially recognized radio broadcast transmitted the news of Warren G. Harding's election in 1920, a new era in communication began. The past thirty years have seen radio manufacturing grow from infancy into one of the nation's largest industries.

Today, in addition to manufacturing radios, phonographs, and the vast amount of electrical equipment necessary to stimulate radio waves in the ether, the electronics industry produces television sending and receiving devices; radio navigation aids, including radar for both marine and air craft; and two-way land-mobile communication, largely used by police cars and taxicabs. Future expansion is likely in electronic industrial devices for such purposes as heating, regulating, and weighing.

Television Takes the Lead

Final production figures for 1949 are not yet available, but the rate of manufacture indicates that it was the radio industry's biggest year to date. A big factor in production increases was the rapid rise of television. Although television manufacture is a postwar development, in 1948 the industry made almost a million television sets, and probably more than doubled this amount in 1949.

Television has had a rate of growth unequaled by any other major industry in the country today. The 2.5 million television sets which manufacturers estimate were made in 1949, plus a probable 1949 radio production of 10 million, will boost the industry's total sales receipts at the retail level to about \$1¼ billion, \$850 million from television. Last year, for the first time, television went ahead of the radio in value of manufacturers' sales. By the fourth quarter of the year, the ratio of television to radio receipts was almost two to one, although television's share of total production was considerably less.

Approximately 100 companies were turning out television sets in 1949, as compared with only 14 three years before. It will probably not be more than a few years until large-scale production will make low-priced television almost as accessible as radio is today, although there are some areas that may never have good reception.

By the end of 1949 well over 3 million television receivers had been purchased by users in 57 cities, and there were about 100 television stations in operation. It is expected that by the end of 1950, 65 percent of American homes will be within range of a television station.

At present, viewers in Illinois are located within 50 miles of four stations in Chicago and one in St. Louis. Stations are being built in Peoria and Rock Island, and plans are being made for installations in West Frankfort, Quincy, Springfield, Decatur, Champaign-Urbana, Danville, Galesburg, and Rockford.

Chicago — Heart of the Industry

The radio industry has always been composed mainly of small manufacturers. There are fewer than a dozen

large producers of radios, but a great many small set companies and parts suppliers. Many new, although chiefly small, television set manufacturers have appeared, but on the whole, the leading radio manufacturers have become the leading producers of television sets.

Chicago has more radio and television manufacturers than any other area in the United States, and produces more television sets than all the other cities in the nation combined. Employment in the industry in the Chicago area was at an all-time high of over 40,000 in November. A number of the Chicago companies, including Admiral, Motorola, and Zenith are among the largest manufacturers of radios and related products in the country.

According to the current Census of Manufactures, Illinois is the leading state in the industry, and in 1947 had 179 of the 850 radio and television manufacturers in the United States, almost one-fourth of the 179,000 workers in the industry, and a value added by manufacture of \$181 million, 20 percent of the national total. Downstate manufacturers of radio and television sets are located in Elgin and Mt. Carmel, and a plant is being installed in Bloomington. There are also a number of manufacturers of radio cabinets and radio parts in the State, most of them in Chicago.

Future of Radio

Whether television will eventually replace radio has been the subject of considerable debate in recent months. Since there are more than 2,700 radio stations in the nation and there are periods during the day when no television programs are on the air, it seems certain that radio will be popular for some time to come.

There is a large radio market even in urban areas well served by television, and almost one-third of all television sets have radio reception facilities. Even though the sales of home radios declined sharply in 1949, demand for portable and automobile sets remained high.

Forecasts indicate a market in 1950 for over 9 million radios, which, although it is only a little more than half the 1948 production, is still well above prewar totals. By the end of 1949, the public had purchased more than 47 million radio sets since the war, more than half of the 83 million sets in operation in the nation.

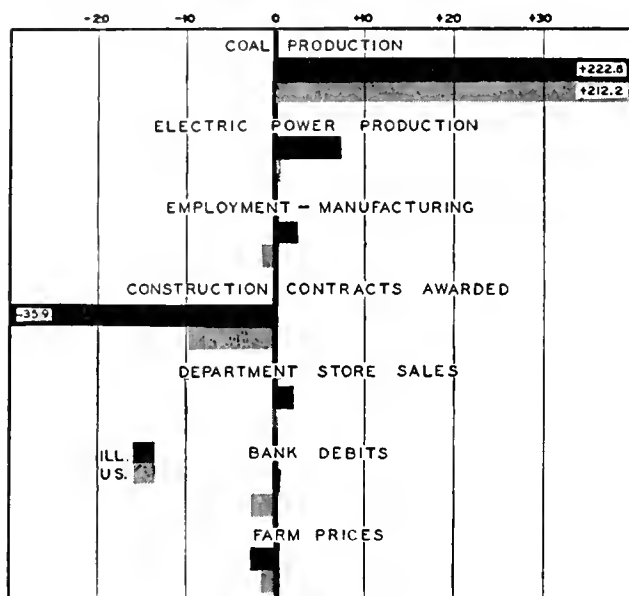
The outlook for the industry was never more favorable. Since 95 percent of the wired homes in the country have at least one radio, their manufacture is primarily a replacement business, but television is in the pioneering stage. Even in the fifty-odd areas that have television reception, only 12 percent of the homes have television sets. The industry expects to make between 3.5 and 4 million television receivers in 1950. This would be about 50 percent more than in 1949 and would increase the industry's revenues from television to well over \$1 billion. By 1951 the newest star on the entertainment horizon should have a nation-wide audience, and it is expected that 7.5 million television sets will be in use.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage Changes October, 1949, to November, 1949



ILLINOIS BUSINESS INDEXES

Items	November 1949 (1935-39 = 100)	Percentage Change from	
		Oct. 1949	Nov. 1948
Electric power ¹	265.1	+ 7.7	- 0.8
Coal production ²	119.4	+222.8	-19.9
Employment—manufacturing ³ ..	111.8	+ 2.8	-13.5
Payrolls—manufacturing ³	257.4	+ 1.6	-15.7
Dept. store sales in Chicago ⁴	221.8 ^a	+ 2.2	- 5.1
Consumer prices in Chicago ⁵	175.3	+ 0.5	- 0.3
Construction contracts awarded ⁶	257.2	-35.9	-13.2
Bank debits ⁷	265.9	+ 0.1	- 7.5
Farm prices ⁸	210.0	- 2.9	-14.3
Life insurance sales (ordinary) ⁹ ..	175.2	+ 3.1	+ 5.4
Petroleum production ¹⁰	240.8	- 3.0	+ 0.3

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Coop. Crop Repts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.
^a Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	November 1949	Percentage Change from	
		Oct. 1949	Nov. 1948
	Annual rate in billion \$		
Personal income ¹	209.7 ^a	+ 0.3	- 3.2
Manufacturing ¹			
Sales.....	217.2 ^a	+ 7.1	- 7.7
Inventories.....	30.6 ^{a, b}	- 0.3	- 9.5
New construction activity ¹			
Private residential.....	8.4	- 3.4	+13.8
Private nonresidential.....	6.9	- 8.0	- 9.8
Public nonresidential.....	5.3	-13.6	+14.9
Foreign trade ¹			
Merchandise exports.....	10.0	- 1.5	+ 1.6
Merchandise imports.....	7.1	+ 6.1	+ 7.0
Excess of exports.....	2.9	-16.2	- 9.7
Consumer credit outstanding ²			
Total credit.....	17.8 ^b	+ 3.5	+13.2
Installment credit.....	10.4 ^b	+ 2.7	+25.6
Business loans ²	13.8 ^b	+ 0.6	-11.3
Cash farm income ³	33.6	-10.5	-12.9
	Indexes (1935-39 = 100)		
Industrial production ²			
Combined index.....	171 ^a	+ 3.0	-12.3
Durable manufactures.....	180 ^a	+ 2.9	-21.4
Nondurable manufactures.....	175 ^a	- 1.1	- 1.7
Minerals.....	139 ^a	+24.1	-13.7
Manufacturing employment ⁴			
Production workers.....	138 ^a	- 0.9	-12.2
Factory worker earnings ⁴			
Average hours worked.....	104	- 1.3	- 1.5
Average hourly earnings.....	232	- 0.2	- 0.6
Average weekly earnings.....	243	- 1.5	- 2.1
Construction contracts awarded ⁵	405	- 9.8	+56.7
Department store sales ²	276 ^a	0.0	- 5.2
Consumers' price index ⁴	169	+ 0.1	- 2.1
Wholesale prices ⁴			
All commodities.....	188	- 0.4	- 7.6
Farm products.....	206	- 1.8	-13.3
Foods.....	201	- 0.4	- 8.8
Other.....	179	0.0	- 5.6
Farm prices ³			
Received by farmers.....	223	- 1.6	-11.8
Paid by farmers.....	192	0.0	- 3.2
Parity ratio.....	100 ^c	- 1.0	- 8.3

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b As of end of month. ^c Based on official indexes, 1909-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1949					January 1, 1949
	Dec. 31	Dec. 24	Dec. 17	Dec. 10	Dec. 3	
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,251	1,507	1,453	1,542	1,542	1,770
Electric power by utilities.....mil. of kw-hr.....	5,493	5,994	5,997	5,881	5,743	5,562
Motor vehicles (Wards).....number in thous.....	106.7	110.6	79.7	46.7	68.4	79.4
Petroleum (daily avg.).....thous. bbl.....	4,933	4,935	4,940	4,919	5,045	5,611
Steel.....1935-39 = 100.....	192.3	195.2	194.3	189.4	181.1	196.5
Freight carloadings.....thous. of cars.....	496	623	640	669	694	585
Department store sales.....1935-39 = 100.....	199	541	584	542	449	204
Commodity prices, wholesale:						
All commodities.....1926 = 100.....	151.1	151.1	151.1	151.0	151.4	162.0
Other than farm products and foods.....1926 = 100.....	145.5	145.4	145.3	145.1	145.1	152.4
28 commodities.....August, 1939 = 100.....	247.7	247.8	246.8	247.9	249.9	296.2
Finance:						
Business loans.....mil. of dol.....	13,904	13,864	13,882	13,807	13,775	15,561
Failures, commercial.....number.....	109	196	161	191	221	128

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Labor Situation Improved

Except for the continued sniping between the United Mine Workers and the coal operators, labor conditions were considerably more stable in December than in previous months. The only other major labor dispute, that between the Aluminum Company of America and 17,000 United Steel Workers, was settled early in the month with agreement on pensions, insurance, and wage rates. The coal dispute was apparently no nearer settlement, even though a number of small operators, reported to produce about 3 percent of the soft coal supply, had signed new contracts providing welfare fund payments of 35 cents per ton and a basic wage scale of \$15 a day. The 35-cent royalty is substantially lower than the 55 cents demanded earlier by Lewis for bargaining purposes.

Large coal users have begun to feel the pinch of inadequate coal supplies and many have had to curtail activities. Chief victims of the squeeze have been the nation's railroads, some of which have been obliged to requisition coal from mines they serve. For other users dwindling supplies of some grades of coal have occasioned an informal rationing of available stocks by dealers, especially after cold weather struck just after New Year's. In Chicago, dealers were delivering as little as one-tenth of coal ordered.

Recent Department of Labor data give a measure of the large increase in workers involved in work stoppages in October. As shown in the accompanying chart, even though the number of strikes was down substantially in September and October, the number of workers affected rose sharply from 250,000 to 1,000,000, the highest point since May, 1946. Total man-days idle during October rose to 19,000,000, higher than in any month since February, 1946.

Employment dropped 962,000 in December as the re-

sult of a seasonal decline of 1,105,000 workers in agriculture. Most of those leaving farm work also left the labor force, however, so that unemployment rose by only 80,000. Nonagricultural employment, the most important category, rose by 143,000 to 51,783,000 workers, the highest level of the year. Bureau of Census data are given below, in thousands of workers:

	December 1949	November 1949	December 1948
Civilian labor force.....	62,045	62,927	61,375
Employment.....	58,556	59,518	59,434
Agricultural.....	6,773	7,878	7,375
Nonagricultural.....	51,783	51,640	52,059
Unemployment.....	3,489	3,409	1,941

Production Up

In a preliminary estimate for the month, the Federal Reserve Board anticipates that December industrial production will rise to slightly above 174 percent of the 1935-39 average, compared with 171 percent in November and 192 percent in December, 1948. Steel was the main heavy industry supporting the increase, with production averaging 92 percent of rated capacity for the month. At mid-December the rate of operation was the highest in seven months. Automotive production lagged early in December as shortages of steel and model change-overs slowed or stopped assembly lines, but by the end of the month production of 1950 cars and trucks was under way and weekly output was again over 100,000 units. The trade paper, *Automotive News*, has estimated total 1949 production at over 6,250,000 vehicles. Bituminous coal production on a three-day work schedule averaged about 9 million tons weekly, a fourth to a third lower than full-time production.

Prices Holding Steady

As in recent months, wholesale prices remained level during December, with only slight movements up or down shown by subgroups. The all-commodity index stood at about 151.0 percent (1926 = 100) during the month. Small rises in the prices of farm products and of all commodities other than farm products and foods were about balanced by a decline in food prices.

Farm prices again declined in the month ended December 15, prices received falling 3 points to 236 percent of the 1910-1914 base period. Prices paid rose 1 point to 240 percent of the base period, with the result that the parity ratio fell from 100 on November 15 to 98 on December 15, the lowest point since November, 1941. Prices paid by farmers have fallen only 11 points from the postwar high of 251 percent set in August, 1948; but prices received are down substantially from the postwar peak of 307 percent set in January, 1948. The most important items marked by declining prices last month were poultry and eggs, meat animals, cotton, and truck crops.

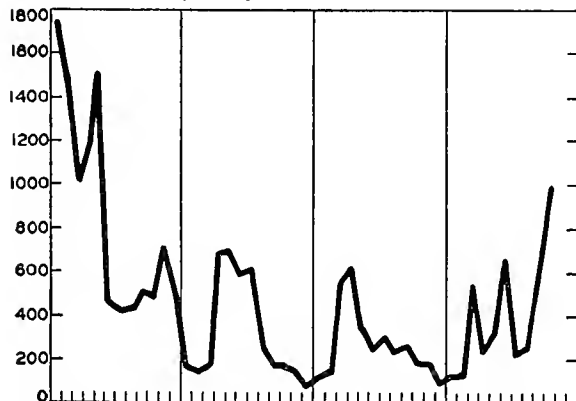
The latest consumers' price index, that for November 15, rose only from 168.5 percent to 168.6 percent of the 1935-39 average, as a result of slight increases in the retail prices of food, rent, fuel-electricity-ice, and house-furnishings. Prices of apparel and miscellaneous items showed small decreases.

More Export Controls

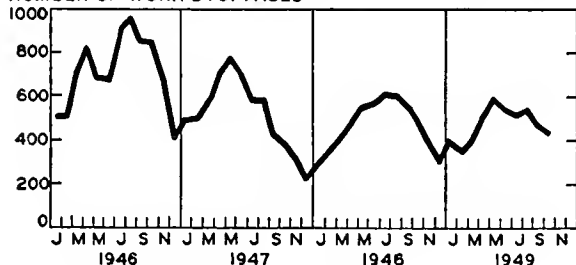
Hard on the heels of its tightened controls on the shipment of strategic materials, the Department of Commerce has imposed further restrictions, this time on the

WORK STOPPAGES

THOUSANDS OF WORKERS



NUMBER OF WORK STOPPAGES



Source: U. S. Department of Labor.

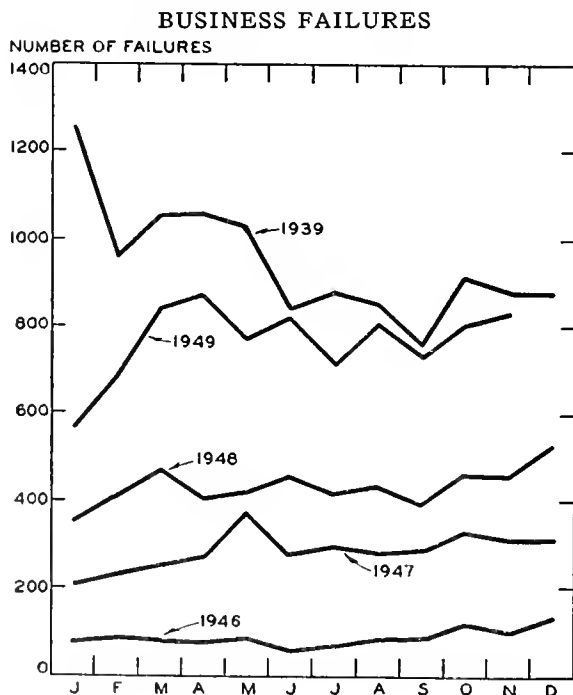
shipment of advanced but unclassified technical data affecting national security. A voluntary plan to control transmission of such data which was set up in November is now bolstered by a mandatory ban in exceptional cases. Technical developments, "know-how," information, prototypes, and special installations may be included in the ban if the Department considers them important to security.

Department Store Sales Rise

After falling below comparable weeks of 1948 for most of the fall and early winter, department store sales rose sharply in the two weeks before Christmas. Earlier unseasonable weather, a revival of the prewar habit of last-minute buying, and the extra shopping day before Christmas were all cited as causes of the new peak. The FRB unadjusted index rose to 584 percent of the 1935-39 average for the week of December 17, 2 percent over the corresponding week of 1948; in the week ended December 24, the index was 541, 14 percent higher than in 1948. With dollar sales higher than last year and prices somewhat lower, physical volume is expected to have been well above that of last year. In some sections, store inventories were pulled down to such a low point that meager post-Christmas white sales and clearance sales are foreseen by the trade.

Business Failures Rising

Following their heyday in the immediate postwar period, when fewer than a hundred businesses failed monthly, business firms are now finding the going somewhat rougher. The accompanying chart illustrates the increase in the number of commercial failures since the beginning of 1946, and shows that the trend was slightly upward until early 1949, when a measure of stability appeared. By that time, however, the number of failures monthly had approached the 1939 level. The most frequent explanation given for this rise in postwar failures has been the mushrooming of new businesses of all types just after the war, many of which were undercapitalized or unable to maintain their position for other reasons.



Source: Dun and Bradstreet.

Farm Controls

With another year of surplus production behind them, the nation's farmers are now facing crop controls in the future. For 1950, acreage cuts have been announced for corn, cotton, and rice; voluntary allotments cut acreage sown to winter wheat by about 15 percent. Controls on tobacco, peanuts, and potatoes are expected. Since acres formerly planted in corn can be used to grow soybeans, it is also regarded as possible that acreage controls on that crop will be imposed even though soybean production has not yet reached the surplus stage.

Manufacturers' Sales High

Manufacturers' sales in November, totaling \$18.2 billion, maintained their October dollar level, and after seasonal adjustment were up 7 percent. Industrial recovery following the steel and coal strikes of October was a major cause of the rise. Durables sales were up \$400 million to \$7.4 billion, a 10 percent increase after seasonal adjustment; nondurables sales dropped from \$11.1 billion to \$10.9 billion dollarwise, but were 3 percent over October sales after adjustment for seasonal factors.

On an unadjusted basis, manufacturers' inventories remained substantially the same during November, totaling \$30.8 billion; nondurables stocks amounted to \$17.2 billion, \$300 million over October, and durables inventories to \$13.6 billion, \$200 million less than the previous month.

Future Bias Toward Deflation

(Continued from page 2)

road improvements when the next depression is upon us; they want good highways now, when they have work to drive to and incomes that permit long vacation trips. These attitudes are hardly unreasonable, and they can't be ignored by government officials.

This situation indicates the basic difficulty with a policy of compensating business fluctuations by means of public works and other government investment projects. As long as government action is responsive to current pressures, and has not reached the stage of planning for long-range stability, programs undertaken specifically to counter recession will always be "too little and too late" to compensate a major decline.

There is also a tendency to lose sight of the temporary nature of some of the programs that are responsible for the present expansion of government expenditures. Foreign aid programs have from the outset been regarded as temporary. Direct military expenditures depend on international developments, which are inherently unpredictable. War is certainly not assured; and there is always the possibility, however remote, that accommodations in international relations will reduce the need for military expenditures throughout the world. Unless new veterans' programs are approved, these payments will also enter a declining phase. The farm price support program cannot continue large subsidies indefinitely; and if controls cannot be established to eliminate surpluses, subsidies will sometime or other be abandoned anyway. When programs of this magnitude come to an end, some letdown in production and employment will be unavoidable.

However optimistic we may be about the prospects for the years immediately ahead, we cannot assume that prosperity will last forever. In the future we can expect to face problems of both inflation and deflation; the only safe course is to prepare to deal with either as it appears.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Aids for New Business

Some of the problems that should receive early consideration by individuals planning to open a store are compiled in a Department of Commerce *Check List for Establishing a Retail Business*. The list includes over 200 questions which should be considered by prospective retailers when making first plans, deciding on a location, preparing for operation, and getting ready for opening day. Careful advance planning prevents needless mistakes and wasted money.

* * * *

Another Department of Commerce leaflet designed to aid persons starting new businesses is *100 Questions for a Prospective Manufacturer*. The combination of a limited amount of capital, lack of experience, and no information about markets or the risks involved is likely to be fatal to a new manufacturing enterprise, and this leaflet outlines the problems involved, most of which can be minimized by careful advance consideration. The 100 questions cover organization and financing; location, plant equipment, and layout; labor; purchasing and packaging; general management; and costs, pricing, and record keeping.

Agricultural Forecast

The United States Department of Agriculture predicts that demand for farm products will remain high next year but will again show a decline from the demand peak in 1948. As discussed in the December issue of the *Agricultural Situation*, the nation's food expenditures may be cut again next year, but plentiful food supplies and slightly lower prices should keep consumption at least as high as in 1949. So far as farm business itself is concerned, the downward trend of 1949 in prices and income will probably continue through 1950. Prices received by farmers in 1950 may average 10 percent below this year, with a corresponding drop in cash receipts. Farmers' costs will probably decline more than in 1949, but at a lower rate than receipts, and net farm income is likely to be down nearly one-third from the 1947 peak.

Consumer Price Index Revision

The Bureau of Labor Statistics has started work on a three-year study of consumer buying habits in order to revise the consumers' price index. The present index includes goods and services representative of what city families were buying in 1934-1936, and omits the many postwar improvements in the American standard of living. Special emphasis will be given to modern housing construction. Records of expenditures of more than 20,000 families and approximately 600,000 price quotations from thousands of retail and service establishments will be used.

Cellophane Competitor

Polyethylene, a new plastic film introduced during the war, may eventually take a substantial share of the plastic wrap market, dominated for 25 years by cellophane. The lightest of the plastics, polyethylene has many of the desirable qualities of cellophane and is expected to be especially useful in wrapping food. It is produced from a

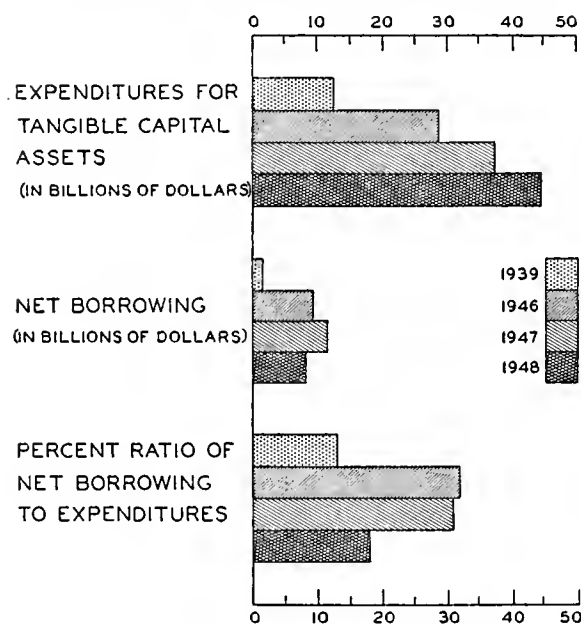
low-cost petroleum derivative and is in the cellophane price range. Output in 1949 was about 25 million pounds.

Consumer Borrowing Down

According to an article on "Measurements of Saving" in the November issue of the *Federal Reserve Bulletin*, preliminary estimates for 1949 indicate that individuals' net repayment of debt is likely to exceed new borrowing, a reversal of the trend which has prevailed during the postwar period.

After the war, the increase in the importance of expenditures for durable goods and other tangible capital assets, such as housing and noncorporate inventories, was accompanied by a sharp rise in borrowing. During the period 1946-1948, individuals' debt outstanding rose \$29 billion, an increase of roughly one-half the debt outstanding at the end of the war.

INDIVIDUALS' NET BORROWING AND EXPENDITURES FOR CAPITAL ASSETS



Source: Federal Reserve Board.

The ratio of net borrowing to individuals' expenditures for capital assets was one-fifth in 1945. As shown in the chart, it rose to one-third in 1946 and 1947, and then dropped to less than one-fifth in 1948. The 1948 decline was largely the result of a rise in the volume of debt retirement. During the first half of 1949, consumers maintained purchases of dwellings and durable goods at approximately the same rate as in the first half of 1948, but this was accomplished to a considerable extent without borrowing. Net mortgage borrowing declined and an increase in installment credit was more than offset by repayments on other types of consumer debt.

State Tax Revenues

A Department of Commerce release on *Sources of State Tax Revenue in 1949* reveals that the 48 state governments and the District of Columbia collected ap-

(Continued on page 9)

CONSTRUCTION FORECASTS FOR 1950

ROBINSON NEWCOMB, Council of Economic Advisers*

Forecasting construction has been as safe a business in the last couple of years as it was hazardous in 1945 and 1946. The Departments of Commerce and Labor were quoted in an article published in the November, 1948, issue of the *Illinois Business Review* as forecasting an increase in construction in the year 1949 of about 6 percent. The Federal Works Agency, in a study made about the same time, forecast an increase of about 2 percent. Other forecasts were within this range. The estimated construction for 1949 is about 3 percent above the reported figure for 1948.

There is at least as much unanimity in forecasts for 1950. The Commerce and Labor departments, for instance, are forecasting practically no change from 1949 to 1950. The General Services Administration (successor to the Federal Works Agency) is expecting a drop of between 1 and 2 percent—in effect no drop at all; and the F. W. Dodge Corporation expects only a slightly larger decline. Assuming generally prosperous conditions, 1950 may well be within 2 or 3 percent of 1949, plus or minus. Even if the forecasts should be somewhat farther from the mark than last year, the basic conclusion that the boom will continue seems likely to hold good.¹

The prospects for 1950 flow from the experiences of 1949. On a seasonally adjusted basis the industry held at practically a constant level the first half of the year. It declined slightly in February and March and then rose steadily through December. At the end of the year it was going at a rate about 10 percent higher than in December, 1948. The year 1950 therefore will start at a better level than did 1949.

Private Nonresidential Construction

Private industrial and commercial construction dropped throughout the year. Other private nonresidential construction declined during the first half but rose during the latter half of the year. Industrial and commercial building is now at such a low level in relation to the economy that any further declines in 1950 will probably be rather small.

Utility construction rose during 1949 but has not yet caught up with the backlog of demand in several categories, such as gas transmission and generation and transmission of electricity. There have been declines in some areas in 1949 and there will be more in 1950. The declines in 1949 were more than made up by unexpected expansions of programs in other areas. There may not be as many unexpected expansions in programs as in 1949; so the volume of utility construction probably will not vary much from 1949 but may be down somewhat.

*This article presents the views of the author and does not necessarily reflect the official position of the Council.

¹This forecast is not given in terms of dollars. The government statistics have been revised very sharply lately and more revisions are coming. For instance, the forecast given in the November, 1948, *Review* used a 1948 figure of \$17,775,000,000. Shortly thereafter that figure was raised to \$18,775,000,000. The current 1949 figure is given as \$19,323,000,000. It probably will be revised upward soon on the basis of new concepts and sources, to as much as \$22 or \$23 billion. Specific dollar forecasts in terms of 1949 figures now current would therefore have to be reinterpreted on the basis of the new figures to be issued soon. Hence, this analysis is presented in general terms rather than in terms of specific dollars for 1949 and 1950.

Private educational, institutional, and other nonresidential building has been rising and probably will continue to rise in 1950. In the aggregate, private nonresidential construction in 1950 may be lower than it was in 1949.

Residential Construction

The second major category, private residential construction, probably will not decline more than a half billion dollars from 1949 to 1950 and may not decline at all in terms of units. It got off to a poor start in 1949, as a result of the adjustment which the industry had to go through. The high-priced markets were more or less saturated by the first half of 1948. Therefore, prices had to be reduced in order to shift to a lower income and rental market. Better housing had to be provided, probably more bedrooms per unit, and machinery for managing rental properties. This process took time, as do most adjustments. But it is being accomplished.

Sales prices on new units in 1949 may have averaged 15 percent below those for comparable properties in 1948. When buyers decided that prices had dropped about as far as they were going to during the year, they apparently came back into the market in sizable numbers. While the volume of one-family housing was far below that of 1948 during the first half of the year, during the last half it was running above that for 1948, so that total volume of one-family units privately built in 1949 will approximate that for 1948.

In addition, largely as a result of renewing Title 608 (a temporary FHA section insuring war and postwar multi-family housing), which made possible relatively easy financing for private rental housing, the volume of privately financed multi-family units rose 28 percent during the first 8 months of 1949 over the same period for 1948. When figures are available for the whole year, the increase may prove to be nearly a third.

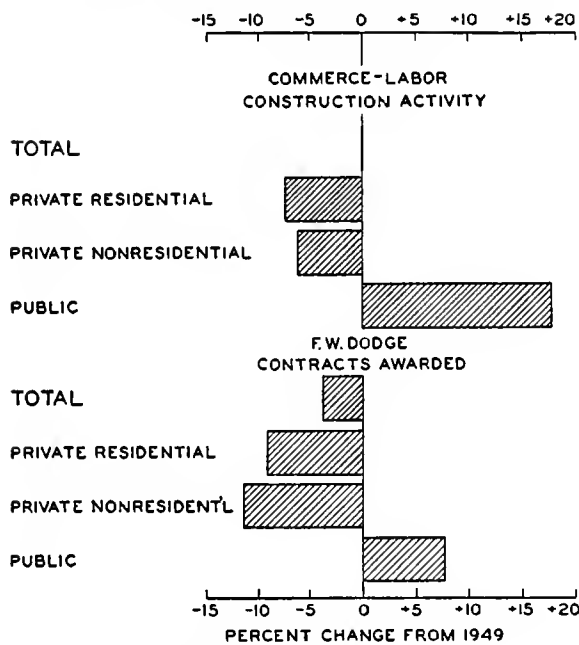
Single-family building held about constant as a result of price cuts. Multi-family construction rose sharply with the aid of governmental insurance, and public residential construction rose also. Thus the total number of residential units started in 1949 was about 10 percent above that for 1948, and the number started in the latter half of 1949 was over 20 percent greater than in the comparable period for 1948. The adjustment to the postwar market is being made and the year 1950 is starting off at a very high level.

Construction Costs

The first easy elimination of waste in construction costs, particularly residential construction costs, has been accomplished. It was not very hard to cut the first 15 percent from costs but it will be harder to cut the next ten. With demand holding up we can not be sure of much, if any, over-all reduction in the prices of materials and certainly not in wage rates.

There will be some further cuts in margins, especially through more direct purchases. There will probably be further reductions in costs as a result of improved efficiency on the part of management. Real, as distinguished from nominal, costs should drop somewhat even though construction cost indexes remain steady or even rise a little. Some of this saving will be passed on, so that

CONSTRUCTION FORECASTS FOR 1950



Sources: U. S. Depts. of Commerce and Labor;
F. W. Dodge Corporation.

home owners should be able to make somewhat better buys in 1950 than in 1949. As the market is elastic, this will tend to hold up demand for single-family units in 1950. Should there be any further weakening of interest rates or reductions in down payments, this too would aid the single-family market.

The large volume of 608 applications already in FHA offices would seem to indicate a larger volume of private multi-family housing in 1950 than in 1949. There will be some military housing under the new amendments to FHA legislation, and if there is any liberalizing in 207 (a permanent FHA section under which multi-family housing was insured before the war and is beginning to be insured again), there will be a further increase in more conventional FHA multi-family construction.

If the 608 volume in 1950 should be 25,000 higher than in 1949 and should privately financed housing for military purposes account for 45,000, and 207's increase by 20,000, private multi-family housing started in 1950 could be 50 percent greater than the 1949 volume. Public housing starts probably will be increased by 45,000, making possible a total increase in multi-family and public residential starts of 125,000 or so. It does not seem probable that single- and 2-family housing will drop by more than 125,000 and it may drop much less than this, so it is quite possible that the number of starts in 1950 may approximate or even exceed the number in 1949. If unit prices are 5 to 10 percent lower in 1950, this would suggest a dollar volume somewhat lower, even though the actual activity is approximately the same or a little higher than in 1949.

Public Construction

The suspension of public nonmilitary construction from 1940 to 1946 created a huge backlog of demand for public facilities, the third major category of construction. This demand has been aggravated by the high birth and marriage rates and the increased standard of living. The increase in the number of children in the

grades in the period following World War II, for instance, will be three times the increase following World War I.

Highway traffic has been increasing at a phenomenal rate. It is more than double the 1929 volume. The increase in 1949 over 1948 was between 4 and 5 percent. Nearly half of the highways are fifteen years old or more, and over 40 percent are due to wear out during the next ten years. Such factors will stimulate highway construction.

Increased incomes and hospital insurance are shooting up the number of patient days per capita in hospitals and forcing large increases in hospital construction. Federal funds voted for conservation and development will insure an increasing volume of construction here. Other public functions also have sound bases for expansion. This is being translated into construction activity with the aid of steadily increasing bond issues, increases in state and local tax receipts and Federal expenditures, both direct and as grants-in-aid. Public construction rose nearly 50 percent from 1946 to 1947, about a third from 1947 to 1948, and about 25 percent from 1948 to 1949. It probably will increase in 1950.

Summary

With such strong forces behind private nonresidential, private residential, and public construction, a rather sizable downturn in general business would appear necessary for the industry to be seriously affected in 1950.

Public construction will go ahead almost irrespective of general business and might even be speeded up somewhat if a recession got under way. Utility construction is planned a long time in advance and does not depend on short-term decisions as much as do some other types of private construction. Residential building has a firm underpinning in Federal aid for both public and private construction, and the volume of starts will be high enough during the first six months to insure a large volume through the first nine months at least. Only minor reductions as compared with 1949 would seem possible and none in the first six to nine months. The only areas showing weakness—industrial, commercial, and some other nonresidential private construction—represent too small a proportion of the total to present much of a threat even in case of business difficulties. It therefore seems fairly safe to forecast a volume for 1950 comparable with that of 1949.

Business Briefs

(Continued from page 7)

proximately \$8.3 billion in taxes in 1949, \$550 million more than in the previous year. The release gives 1948 and preliminary 1949 tax breakdowns both for the individual states and for the group as a whole. For the latter, only death and gift taxes and unemployment compensation revenues are expected to show decreases from last year's totals. In Illinois, decreases are expected to occur in receipts from death and gift taxes, alcoholic beverages, insurance companies, and motor vehicle operators. The preliminary figures indicate, however, that Illinois totals from sales and gross receipts will rise from \$303 million to \$320 million, while license and privilege receipts increase from \$43 million to \$48 million, and unemployment compensation revenues go up to \$63 million from \$54 million.

LOCAL ILLINOIS DEVELOPMENTS

In November, most Illinois business indicators showed gains over the previous month, though the increases were largely seasonal. Electric power production turned upward in November, after contra-seasonal declines in September and October brought on by the steel and coal strikes. Coal production increased materially over the preceding month but continued far below last year's output. Petroleum production declined seasonally, but held at last year's level.

Business conditions in Illinois were generally not so good in 1949 as in 1948, according to the chart below. Construction, petroleum production, and electric power output were among the few important indicators to register gains last year; the rise in postal receipts must be partly discounted because of the increase in postal rates early in 1949. However, even in categories that declined from the 1948 peaks—farm income, bank debits, manufacturing employment, and others—activity continued at very high levels.

Department Store Sales

Department store sales in the State in November were approximately 13 percent above October sales but were off 6 percent from November, 1948. Eight of the twelve reporting cities showed increases over October. In Chicago, department stores reported a one percent decline in sales for the four weeks ending December 24, and a 6 percent decline from January 1 to December 24, as compared with the corresponding periods of 1948.

Prices

The consumers' price index of living essentials for Chicago as of November 15 was 175.3 percent of the 1935-39 average, as compared with 175.9 percent last November and 174.4 percent in mid-October. The slight rise from October to November was due to an increase in the prices of certain foods and of bituminous coal and

coke. Residential rents increased 0.4 percent during the month.

The index of prices received by Illinois farmers for all commodities declined 3 percent from October to November and was 14 percent below November, 1948. The decline was due to lower crop, livestock, and livestock product prices. In comparison, prices received by farmers throughout the nation declined 1.6 percent from October to November and were 12 percent below November, 1948.

Employment and Payrolls

Manufacturing employment in the State increased by about 3 percent from mid-October to mid-November, while payrolls rose approximately 2 percent. Gains were spotty throughout the State, as shown by the table on the opposite page. In some areas, plants were not yet back to normal operation after the cutbacks in October, because of shortages due to the steel and coal strikes.

The Chicago area showed greater employment gains than the downstate area as a whole, though the largest percentage gains in employment were reported in the Sterling-Rock Falls and Rock Island areas. The gains in both of these latter areas were due to abnormally low levels of employment in October, caused by a labor dispute in blast furnaces and rolling mills in the Sterling-Rock Falls area and by strike-induced material shortages in Rock Island. However, by November 15 employment in both these areas exceeded or equaled its September levels.

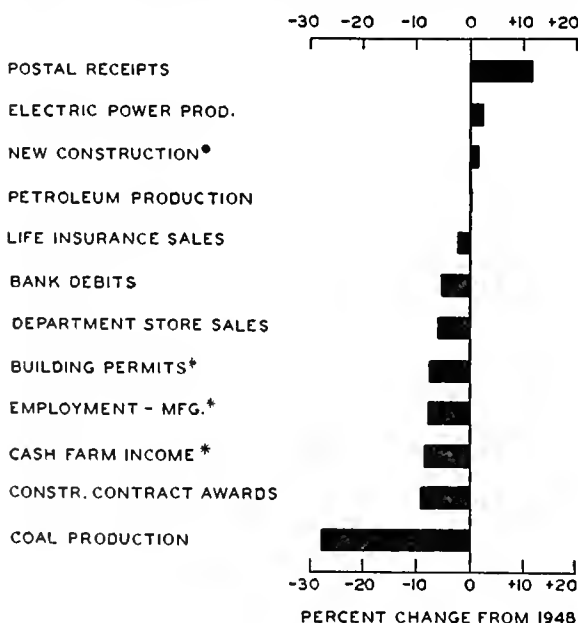
Plans for expanding the manufacture of radio and television sets were recently announced by two firms in the State. Admiral Corporation, manufacturers of television and radio sets and electrical appliances, completed purchase arrangements for a 64,000 sq. ft. plant in Bloomington late in December. The corporation plans to use the plant at first for manufacturing radios and later for television receivers. It is estimated that 1,200 people will be employed. Motorola, Inc., of Chicago is doubling the capacity of its plant in Quincy, to free its Chicago plant for video production. The addition will raise its output of radio sets at Quincy from 2,800 to 3,800 units a day, and will require approximately 100 additional workers.

Construction

New construction activity in Illinois has been at about the same rate as for the country as a whole. Total value of new construction put in place in the State during the third quarter was 2.6 percent below the all-time high reached in the third quarter of 1948. The cumulated value of new construction in Illinois during the first three quarters of 1949 was 1.4 percent greater than during the same period of 1948.

Construction contracts awarded in the State during November, as reported by F. W. Dodge Corporation, totaled \$43 million, compared with \$49 million in the previous November and \$67 million in October. Total value of contracts awarded in the State for the first 11 months of 1949 totaled \$592 million, 9 percent less than for the same period last year. These data do not necessarily contradict those relating to the value of new construction, as there is often a considerable lag between the time a contract is awarded and the start of construction; many contracts are for projects requiring a year or longer to complete.

SELECTED ILLINOIS BUSINESS INDICATORS
(Percent change Jan.-Nov., 1948 to Jan.-Nov., 1949)



* FIRST 10 MONTHS ONLY
• FIRST 9 MONTHS ONLY

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

NOVEMBER, 1949

		Manufacturing ¹ Employment & Payrolls (Indexes 1935-39 = 100)		Building Permits ¹ (000)	Depart- ment Store Sales ²	Bank Debits ² (000,000)	Postal Receipts ³ (000)
ILLINOIS.....							
		111.8	257.4	\$17,755 ^a		\$8,289 ^a	\$12,329 ^a
Percentage Change from.....	{Oct., 1949.....	+2.8	+1.6	-35.1	+12.9	+0.1	+10.9
	{Nov., 1948.....	-13.5	-15.7	-3.1	-6.3	-7.5	+15.2
NORTHERN ILLINOIS							
Chicago.....							
		113.6	263.6	\$12,509		\$7,518	\$10,996
Percentage Change from.....	{Oct., 1949.....	+4.7	+4.1	-41.0	+14.9	+1.3	+11.8
	{Nov., 1948.....	-12.9	-15.2	-4.6	-5.7	-7.2	+16.1
Aurora.....							
		117.4	291.5	\$ 202		\$ 33	\$ 72
Percentage Change from.....	{Oct., 1949.....	-5.1	-5.8	-49.1	+3.7	-2.4	-5.8
	{Nov., 1948.....	-15.2	-20.4	-17.4	-6.9	-4.6	-5.5
Elgin.....							
		102.9	251.6	\$ 189		\$ 23	\$ 87
Percentage Change from.....	{Oct., 1949.....	+1.7	+1.6	-81.0	+6.2	+4.1	+20.0
	{Nov., 1948.....	-2.6	-4.6	+29.6	-6.4	+0.9	+35.7
Joliet.....							
		59.2	144.6	\$ 578		\$ 37	\$ 56
Percentage Change from.....	{Oct., 1949.....	-2.5	+5.4	+50.7	+0.5	+4.6	-17.4
	{Nov., 1948.....	-46.9	-50.2	+20.7	-13.2	-5.0	-9.2
Kankakee.....							
		122.0	358.0	\$ 205		n.a.	\$ 30
Percentage Change from.....	{Oct., 1949.....	-2.7	-1.8	+73.2	-7.0		+14.7
	{Nov., 1948.....	-22.0	-16.3	+66.3	-17.9		+13.0
Rock Island-Moline.....							
		107.7	253.7	\$ 607		\$ 28 ^c	\$ 129
Percentage Change from.....	{Oct., 1949.....	+18.2	+18.2	-33.5	n.a.	-1.0	+9.8
	{Nov., 1948.....	-19.3	-19.4	+18.3		+7.4	+2.7
Rockford.....							
		134.2	332.3	\$ 410		\$ 88	\$ 144
Percentage Change from.....	{Oct., 1949.....	-1.9	-6.9	-12.6	+11.0	+0.7	+4.4
	{Nov., 1948.....	-11.4	-23.1	+50.1	-8.6	-8.1	+8.1
CENTRAL ILLINOIS							
Bloomington.....							
		79.3	170.6	\$ 64		\$ 40	\$ 73
Percentage Change from.....	{Oct., 1949.....	-11.1	-14.4	+16.1	n.a.	-10.5	-2.8
	{Nov., 1948.....	-19.6	-14.7	-12.6		-14.2	+3.4
Champaign-Urbana.....							
		n.a.	n.a.	\$ 219 ^b		\$ 41	\$ 86
Percentage Change from.....	{Oct., 1949.....	-10.4	-13.8	+88.5	n.a.	-15.5	+18.0
	{Nov., 1948.....	n.a.	n.a.	+70.4		-0.7	+20.7
Danville.....							
		76.6	193.2	\$ 409		\$ 33	\$ 49
Percentage Change from.....	{Oct., 1949.....	-1.8	-4.0	+258.1	+2.0	-2.7	-2.5
	{Nov., 1948.....	-4.6	+2.2	+463.5	-10.2	-13.0	+11.6
Decatur.....							
		112.3	283.0	\$ 371		\$ 72	\$ 78
Percentage Change from.....	{Oct., 1949.....	-2.0	-8.0	+4.2	-4.9	-25.7	+5.2
	{Nov., 1948.....	-6.7	-0.4	+156.8	-5.0	-11.5	+13.5
Galesburg.....							
		n.a.	n.a.	\$ 733		n.a.	\$ 29
Percentage Change from.....	{Oct., 1949.....	+3.9	+4.1	+247.0	n.a.		+15.8
	{Nov., 1948.....	n.a.	n.a.	+616.2			+9.4
Peoria.....							
		154.6	289.0	\$ 427		\$ 169	\$ 164
Percentage Change from.....	{Oct., 1949.....	-1.3	-10.7	-16.7	+11.2	-6.1	-0.8
	{Nov., 1948.....	-3.6	-12.1	-77.5	-8.9	-8.3	+5.2
Quincy.....							
		92.6	176.2	\$ 204		\$ 29	\$ 59
Percentage Change from.....	{Oct., 1949.....	-9.9	-19.3	+150.3	+3.0	-5.7	-4.7
	{Nov., 1948.....	-28.5	-33.3	-50.5	-7.0	+4.9	-0.3
Springfield.....							
		209.4	534.0	\$ 274		\$ 66	\$ 171
Percentage Change from.....	{Oct., 1949.....	-4.1	-6.3	-18.1	-2.5	-9.5	+1.0
	{Nov., 1948.....	-30.8	-28.6	-34.7	-11.6	-9.5	+14.0
SOUTHERN ILLINOIS							
East St. Louis.....							
		109.4	221.6	\$ 188		\$ 89	\$ 46
Percentage Change from.....	{Oct., 1949.....	-0.4	-2.4	-19.4	-3.0	-24.7	+14.2
	{Nov., 1948.....	-9.7	-16.8	+227.8	+3.0	-29.3	-11.3
Alton.....							
		153.5	420.6	\$ 85		\$ 23	\$ 29
Percentage Change from.....	{Oct., 1949.....	-1.9	-1.2	-49.9	n.a.	-2.1	+21.0
	{Nov., 1948.....	-16.0	-9.5	+3.0		-1.8	+9.0
Belleville.....							
		70.1	166.6	\$ 83		n.a.	\$ 31
Percentage Change from.....	{Oct., 1949.....	-4.1	-7.3	-54.5	n.a.		+7.7
	{Nov., 1948.....	-18.1	-28.5	+63.1			+9.3

Sources: ¹ Illinois Department of Labor. Data on employment and payrolls include plants in areas surrounding designated cities. Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ³ Local post office reports.

^a Total for cities listed.

^b Champaign only.

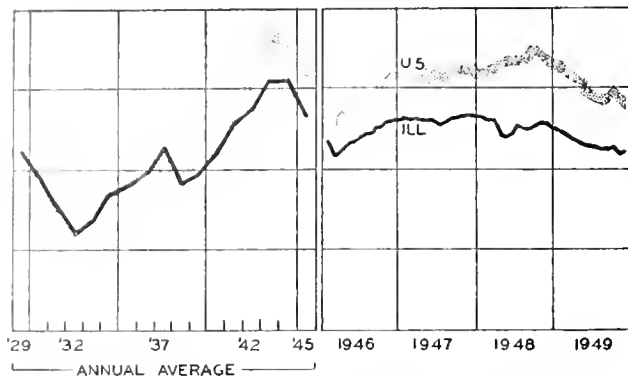
^c Moline only.

n.a. Not available.

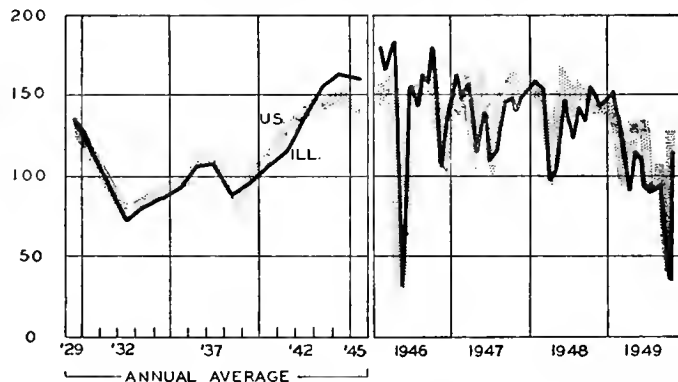
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

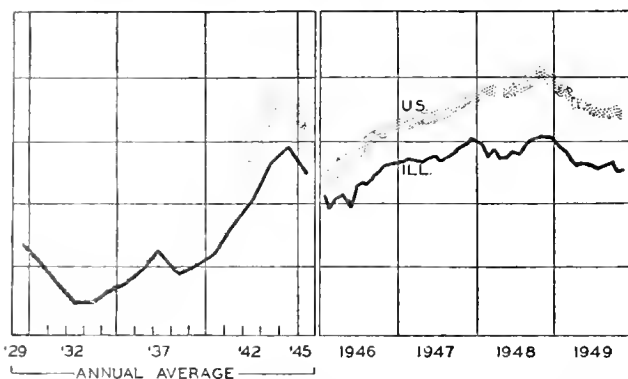
EMPLOYMENT - MANUFACTURING



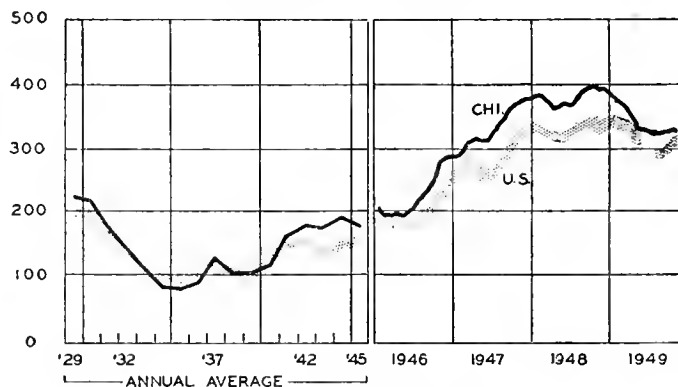
COAL PRODUCTION



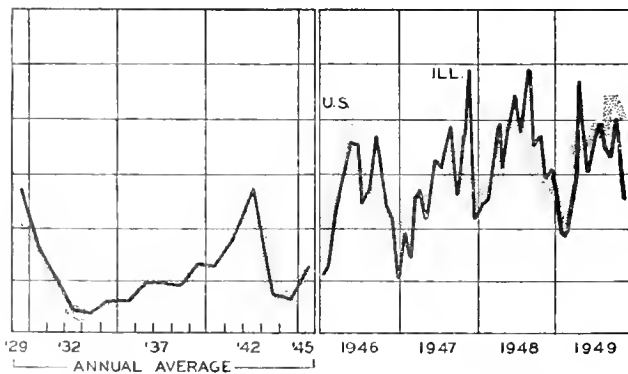
PAYROLLS - MANUFACTURING



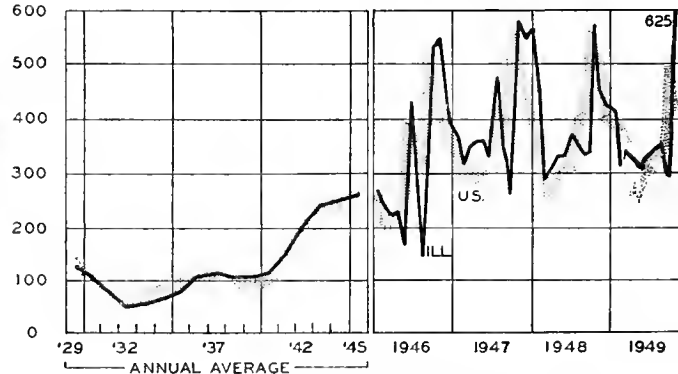
BUSINESS LOANS



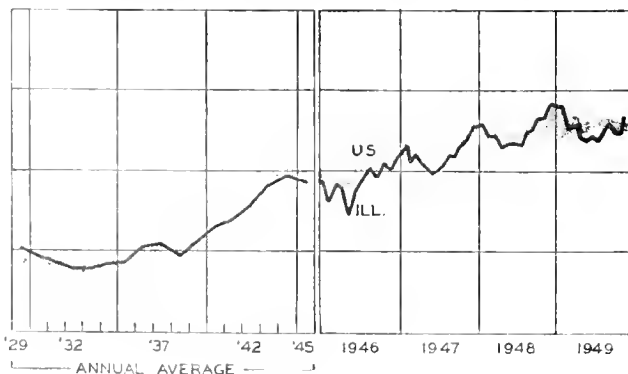
CONSTRUCTION CONTRACTS AWARDED



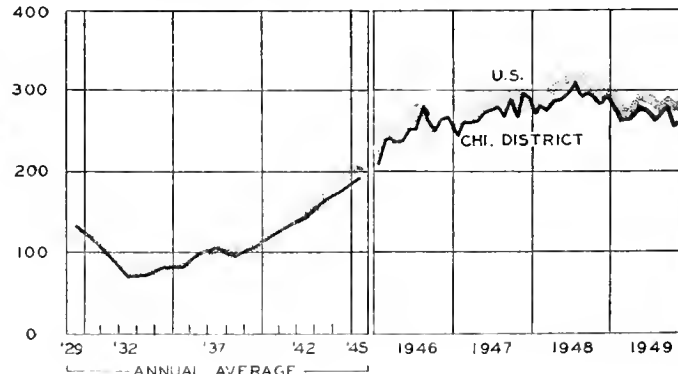
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME VII

FEBRUARY, 1950

NUMBER 2

HIGHLIGHTS OF BUSINESS IN JANUARY

Despite seasonal handicaps and labor difficulties in a number of fields, business conditions remained favorable in January. Construction set a high for the month, thereby maintaining the record pace begun in mid-1949. Industrial production increased by 2 percent to 182, the highest point since last March, as steel output averaged 95 percent of capacity during the month and the automobile industry turned out over 600,000 cars and trucks, also a record for January. Increased activity has also been reported in other fields. Durable consumer goods received impetus from the success of the recent furniture and household furnishings merchandise shows, and order backlogs are reported high in textiles and apparel. Considerable optimism appeared in evidence, as the bull market in stocks surged to new highs.

The main cloud on the industrial horizon seemed to be the coal strike, which by the end of the month had begun to affect a number of related industries. Thus, freight carloadings in the week ended January 21 were down 13 percent from the comparable week of a year ago. Retail trade and farming were affected by the usual seasonal letdowns, with retail sales in January about the same as last January.

Unemployment at Postwar Peak

Seasonal layoffs and bad weather caused the number of unemployed to rise to a postwar peak of 4.5 million in January, almost one million above the December level. The increase of 1.8 million from January, 1948, was mainly due to growth in the labor force, which is up 1.4 million over last year. Nonagricultural employment was slightly higher and total employment somewhat lower.

The decline in employment in January was largely seasonal in character. Construction and farm employment were hard hit by weather conditions. Farm employment alone dropped almost 600,000 during the month to 6.2 million. Nonagricultural employment fell to 50.7 million, one million below December. Most of the drop occurred in construction and trade, as factory employment was reported not to have been materially affected.

Construction at Record Level

A new record for construction activity in January was set last month with \$1.5 billion of new construction. This is 16 percent above the January, 1949, level, although 7 percent below December, 1949. Private homebuilding was

a principal factor in maintaining this record pace, accounting for almost 60 percent of the \$1.1 billion of private construction and running 37 percent above last January. All types of public construction outlays also registered sharp gains over last January, with public residential construction rising the most, up 175 percent.

Stock Market Surges Upward

A new bull market appeared to be in the making as the stock market rose during January to its highest point in over three years. At 204.11, the Dow-Jones industrial average stood only about 8 points below the closing top of August 13, 1946. The rapidity with which the economy recovered from the early 1949 letdown and renewed optimism as to the business outlook are said to be primarily responsible for the recent gains.

As in the early stages of the 1942-46 bull market, high-grade stocks have shown the main improvement so far. Though the low-priced, more speculative shares have also been rising, the Standard and Poor's index of low-priced common stocks remained 10 percent below the August, 1948, high, whereas their index of high-quality shares is about 11 percent above its August, 1948, peak. The leadership of the high-quality stocks promises to continue, as returns of 6 percent and more are obtainable from many of these stocks even at present prices.

Foreign Trade High in 1949

In 1949 the United States exported \$12 billion worth of merchandise and imported \$6.3 billion. The export total was 5 percent below the 1948 figure and 16 percent below the record \$14.4 billion of goods exported in 1947. The amount imported was 7 percent below the 1948 high. As a result, the merchandise balance of trade in 1949 declined slightly to \$5.4 billion, 2 percent below 1948.

Late 1949 trends brought the balance to a new low for the postwar period. In the final three months of 1949, the only months following the recent devaluations for which data are presently available, the merchandise balance has been down to an annual rate of \$3.5 billion. This is well under the \$6 billion foreign aid of fiscal 1950, and about a fourth under the \$4.7 billion requested by President Truman for fiscal 1951. The improvement in exports in December may therefore be expected to continue.

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Deficit No Key to Policy

"You can't have everything," goes the old saying. Yet, in government finance at least, that is what many people seem to want. They want high and varied expenditure programs (See page 8), low taxes, and a balanced budget. Many never seem to realize that there is an inconsistency in asking for all of these at the same time.

Many of those who are worried about the deficit fear it not so much on its own account, but because it is to them the symbol of other, longer-range dangers. According to this view, it threatens inflation, the continued growth of the "welfare state," and ultimate socialism. Thus, the deficit is sometimes blown up to appear the biggest of all evils—one to be avoided without regard to immediate social or political consequences.

Even those who do not share all these fears frequently regard the deficit as a simple, direct indicator—the sole criterion of the soundness of government finance and our general position. In trying to examine the usefulness of looking at a deficit from this point of view, we have been forced to the conclusion that its value is indeed limited. By itself, it does not seem to offer a correct approach either to the problems of government finance or to the more general problems of the economic state of the nation.

What Is the Deficit?

The word "deficit" has a familiar sound. It is commonly heard in business and may refer to a concern that is "going on the rocks." But is this the significance of the term as applied to government operations? It seems not. No business includes capital outlays—for construction projects like the public works program, or for equipment like aircraft—in its current losses. No business would include loans like the RFC mortgage purchases in its losses, at least not until they were known to be bad debts. Another difference is that the government does not allow for depreciation of its facilities.

Somehow the deficit has also got tied up with the idea of the "welfare state." Is there some sense in which it can be considered an instrument of the welfare state? Again it seems not. Deficits occurred long before the term "welfare state" entered common parlance—and this term does not properly apply to either large military programs or the various subsidies paid to special pressure groups. Moreover, the welfare state could, like any other state, carry on its activities with either a budget deficit

or surplus, depending on other circumstances. At a still further extreme, a socialistic state might be even better able to balance its budget, because it would command the entire profits of its publicly-owned industry.

A deficit or a surplus appears as a result of the way things happen to come out, after Congress has thrashed out expenditure and tax legislation, and business developments have determined the level of income. Either is just a residual, the difference between something called total budget receipts and something else called total budget expenditures. Either can be estimated in advance only on the basis of assumptions—such as the Budget Message assumptions of no tax changes and approval of the President's new program, or the Treasury Department's assumption of no change in total personal income in projecting tax receipts through the middle of 1951.

Practical Realities of Government Finance

Almost everyone agrees that deficits are bad. It may take courage to attack some pet expenditure program, or to advocate higher taxes, but the deficit can always be kicked with impunity. The sad part of the situation is that kicking the deficit accomplishes so little.

For the deficit offers no basis for dealing with the practical difficulties of managing national affairs. When anything has to be done, the real point of attack has to be in terms of the specifics of expenditure or revenue programs; and in changing any of these, practical politics as well as real values has to be considered.

The fact is, most expenditure programs have some real justification. Hardly anyone is willing to argue that there is no real tension in the international situation; or that the farm price support program did not have its origin in real difficulties; or that real needs for schools and highways did not accumulate during the war period. The demands underlying practically every program have at least some reasonable basis, and the possibilities of cutting them appear to have been greatly overemphasized.

There can be no quarrel with the need for economy and efficiency in government. The Administration, in full agreement on this point, devotes at least part of its energies to holding expenditures down. Dr. Nourse, former Chairman of the Council of Economic Advisers, who expressed his dissatisfaction by resigning, states that some credit is due the executive branch on this score. Like other students of the budget, he arrives at the conclusion that it cannot be balanced by merely improving efficiency, but only by eliminating functions or programs. This is the point where politics comes in, as most Congressmen would rather "team up" to get their own projects through than to kill off the other fellow's.

It is easy for anyone to say that this or that should be cut and to set up a schedule of changes that would eliminate the deficit. No doubt, if any of us were dictators, we would quickly put the necessary cuts into effect; but equally without doubt, others are glad that we are not. Perhaps some unnecessary spending is part of the price we have to pay for having our kind of government.

On the revenue side, also, it is difficult to obtain desirable changes. It is easy to agree on the need for reform of the tax structure; but there is always wide disagreement on the specific changes needed. Even flagrant cases of tax avoidance, like those mentioned by President Truman involving movie stars and oil men, are difficult to correct, since the favored groups can take advantage of the general desire for lower taxes to block action.

(Continued on page 6)

MUSICAL INSTRUMENTS

Musical instruments have come a long way from the clay drums and whirring bones used by primitive man to frighten away evil spirits. Although most of the instruments in use today appeared in their present form during the 17th and 18th centuries, the history of earlier forms in Europe can be traced back to prehistoric times.

The manufacture of musical instruments has retained many of the original handicraft techniques, used since the Renaissance. Instrument producers in the United States employ thousands of skilled craftsmen who make everything from plywood for drums and stringed instruments to cast-iron piano frames.

The manufacture of pianos and organs dominates the field. American piano and organ makers shipped \$68 million worth of goods in 1947, more than twice as much as the value of the shipments of all other musical instruments combined.

About 30 companies in Illinois manufacture one or more instruments, and approximately a dozen firms make instrument parts or cases. The majority of these concerns have their factories in Chicago; others are in Quincy, Rockford, Oregon, Highland, Decatur, and De Kalb.

Pianos — An Illinois "First"

Piano manufacturing in the United States reached a peak in the early 1900's. Highest dollar sales were realized in 1923, totaling almost twice the \$55 million of 1947. The industry was hard hit by the depression, making only 27,000 pianos in 1932. Then manufacturers introduced a small upright piano called the spinet, which started the industry on the road to recovery, and by 1935 shipments were up to 65,000. The trend toward the spinet has continued. Only about 4,000 of the 147,000 pianos produced in the United States in 1947 were grands or baby grands. In 1948 the industry was still filling the backlog of demand which resulted from the complete shutdown of piano production during the war, and the 164,000 pianos produced in that year represented the largest volume since the 1920's.

In 1947 the seven companies making pianos in Illinois led the nation with a product value of \$15 million, 28 percent of the national total. Illinois piano manufacturers employed 2,000 of the 7,000 workers in the industry, paying approximately \$6 million in salaries and wages.

The Illinois companies include some of the top piano manufacturers in the business. Kimball, Conover-Cable, Wurlitzer, Story and Clark, Gulbransen, Starck, and Haddorff are all widely known makers of fine pianos, some of them with international distribution. The W. W. Kimball Company of Chicago, one of the oldest firms in the industry, has the nation's largest piano factory.

New Trends in Piano Production

As a means of home entertainment the piano has survived the competition of the phonograph and the radio, but it appears that television may prove to be still another threat to sales. Some members of the industry feel that

the novelty of TV, plus the fact that a television set costs a good deal less than a piano, partly accounts for the slump in piano retailing that occurred during the early months of 1949. Shipments began climbing again in October, however, and most of the 27 companies in the industry have indicated that the outlook for sales in 1950 is good. It has even been suggested that any depressing effect television may have on piano sales will probably not be permanent and that, if it causes people to spend more time at home, it may actually help piano sales.

Most of the companies in the piano industry are modernizing their plants in order to streamline manufacturing processes. In addition, new manufacturing and retailing techniques are being experimented with. A few companies are using portable trailer showrooms in order to reach rural customers. One company in the East is trying out the substitution of aluminum for the traditional cast iron in piano frames. Although aluminum would considerably reduce the weight of the piano, it would still have to withstand the 30 tons of pressure exerted by the strings of an ordinary piano.

Other Instruments Made in Illinois

In addition to piano manufacturers, there are a number of concerns in Illinois producing a variety of other musical instruments. Many of these companies are outstanding in their fields. J. C. Deagan, Inc., of Chicago, is the nation's largest producer of chimes, bells, vibraharp, xylophones, and marimbas.

Another Chicago concern, the Slingerland Drum Company, is said to be the largest exclusive drum manufacturing company in the country. The Wurlitzer plant at De Kalb is the largest accordion factory in the United States, and several Chicago firms are outstanding in the manufacture of stringed instruments. One of them, the Kay Musical Instrument Company, is the largest stringed instrument manufacturer in the world.

Illinois is an important manufacturer of organs and was responsible for over 40 percent of the \$20 million in shipments of piano and organ parts made in the United States in 1947. The Wicks Organ Company at Highland is the only concern in Illinois engaged in the production of pipe organs, but there are five firms in the State manufacturing electric organs. The Hammond, the original electric organ, is made by the Hammond Instrument Company in Chicago.

The electric organ is completely different from the pipe organ in its method of tone production. It uses vacuum tubes to magnify sounds created in a number of ways. The Hammond uses revolving discs, and Wurlitzer employs wind-activated reeds. The tones of a purely electronic organ are produced by oscillating vacuum tubes.

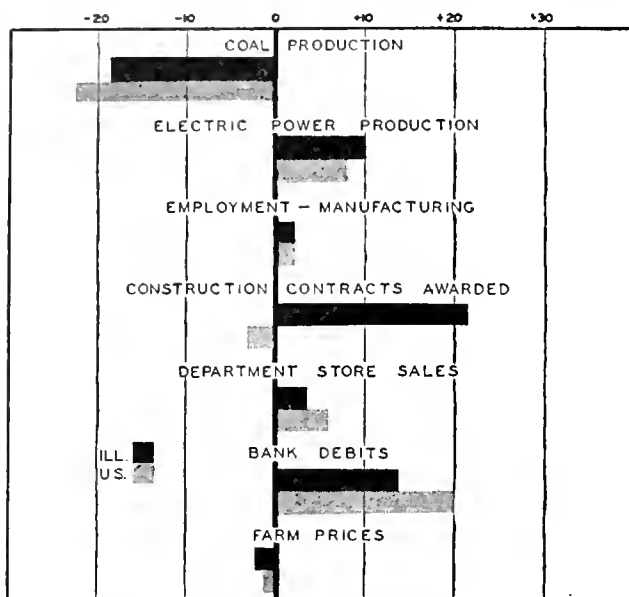
In 1947 the value of electric organs sold in the United States was almost double the value of pipe organs, despite generally lower unit cost, an indication of how popular the new instrument has become since its invention in 1935.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage Changes November, 1949, to December, 1949



ILLINOIS BUSINESS INDEXES

Items	December 1949 (1935-39 = 100)	Percentage Change from	
		Nov. 1949	Dec. 1948
Electric power ¹	291.5	+10.0	+ 1.1
Coal production ²	97.0	-18.8	-37.2
Employment—manufacturing ³ ..	114.2	+ 2.0	-11.0
Payrolls—manufacturing ³	270.5	+ 5.1	-11.6
Dept. store sales in Chicago ⁴	230.1 ^a	+ 3.7	- 4.2
Consumer prices in Chicago ⁵	173.2	- 1.2	- 1.3
Construction contracts awarded ⁶	312.0	+21.3	+ 2.3
Bank debits ⁷	302.5	+13.7	-21.4
Farm prices ⁸	205.5	- 2.1	-14.9
Life insurance sales (ordinary) ⁹ ..	193.8	+10.7	+ 0.5
Petroleum production ¹⁰	243.3	+ 1.0	- 0.5

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Coop. Crop Repts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.
^a Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	December 1949	Percentage Change from	
		Nov. 1949	Dec. 1948
Personal income ¹	211.5 ^a	+ 1.0	- 2.5
Manufacturing ¹			
Sales.....	199.2 ^a	- 4.0	-13.1
Inventories.....	30.8 ^{a, b}	+ 1.0	- 9.7
New construction activity ¹			
Private residential.....	8.3	- 3.5	+26.1
Private nonresidential.....	6.4	- 7.8	- 8.1
Public nonresidential.....	4.4	-18.5	+17.4
Foreign trade ¹			
Merchandise exports.....	11.3	+12.8	-28.4
Merchandise imports.....	7.3	+ 1.9	-16.0
Excess of exports.....	4.0	+39.7	-43.4
Consumer credit outstanding ²			
Total credit.....	18.8 ^b	+ 5.5	+15.1
Installment credit.....	10.9 ^b	+ 4.5	+26.9
Business loans ²	13.9 ^b	+ 0.9	-10.6
Cash farm income ³	27.8	-23.7	-14.1
Indexes (1935-39 = 100)			
Industrial production ²			
Combined index.....	178 ^a	+ 2.9	- 7.3
Durable manufactures.....	202 ^a	+12.2	-12.6
Nondurable manufactures.....	174 ^a	- 1.7	+ 0.6
Minerals.....	131 ^a	- 7.1	-16.0
Manufacturing employment ⁴	144 ^a	+ 1.9	- 8.8
Production workers.....			
Factory worker earnings ⁴	106	+ 1.5	- 0.7
Average hours worked.....	236	+ 1.5	+ 0.9
Average hourly earnings.....	251	+ 3.1	+ 0.1
Average weekly earnings.....	393	- 3.0	+33.9
Department store sales ²	293 ^a	+ 6.2	- 3.0
Consumers' price index ⁴	168	- 0.7	- 2.3
Wholesale prices ⁴			
All commodities.....	188	- 0.2	- 6.8
Farm products.....	204	- 1.0	-12.4
Foods.....	197	- 2.0	- 8.5
Other.....	179	+ 0.3	- 5.0
Farm prices ³			
Received by farmers.....	221	- 1.3	-11.9
Paid by farmers.....	192	+ 0.4	- 2.4
Parity ratio.....	98 ^c	- 2.0	-10.1

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b As of end of month. ^c Based on official indexes, 1909-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1950				1949	
	Jan. 28	Jan. 21	Jan. 14	Jan. 7	Dec. 31	Jan. 29
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,250	1,210	1,237	1,130	1,277	1,747
Electric power by utilities.....mil. of kw-hr.....	5,972	6,041	6,029	5,695	5,493	5,810
Motor vehicles (Wards).....number in thous.....	133.5	150.8	147.0	110.3	106.7	113.0
Petroleum (daily avg.).....thous. bbl.....	4,893	4,899	4,865	4,865	4,933	5,439
Steel.....1935-39 = 100.....	200.5	202.9	200.7	198.4	192.3	208.8
Freight carloadings.....thous. of cars.....	636	619	631	507	496	679
Department store sales.....1935-39 = 100.....	223	230	233	205	197	218
Commodity prices, wholesale:						
All commodities.....1926 = 100.....	150.7	150.9	151.4	150.6	151.1	159.5
Other than farm products and foods.....1926 = 100.....	145.1	145.2	145.2	145.1	145.5	152.9
28 commodities.....August, 1939 = 100.....	249.4	249.2	250.0	249.7	247.7	283.7
Finance:						
Business loans.....mil. of dol.....	13,871	13,861	13,857	13,851	13,904	15,381
Failures, commercial.....number.....	232	231	207	161	109	136

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Holds Up

Despite the coal shortage and a Chrysler strike, two of the most important heavy industries maintained production at a high level in January. Steel production averaged about 95 percent of capacity, or 1,790,000 net tons of ingots each week, and was reportedly held down only to conserve coal supplies. Automotive production rose rapidly after the year-end model change-overs, rising from 110,000 vehicles in the week ended January 7 to 150,000 cars and trucks in the week ended January 21. The onset of the Chrysler pension strike the next week cut production by 16,000 units and, according to the trade, will prevent the achievement of a new first-quarter record. Coal production, on a three-day week basis, continued at a level somewhat above one-half of production for five days weekly.

According to the American Iron and Steel Institute, production of steel ingots and castings totaled 77,860,943 tons in 1949, with output averaging 81 percent of the industry's rated capacity. The addition of 3,271,870 tons to annual potential steel output in 1949 brought the total to 99,392,800 net tons, about 4 million tons over the wartime high, and a new record.

The Federal Reserve Board has placed the index for December industrial production at 178 percent of the 1935-39 base, a 5 point increase over November and the highest point since last April. The rise was attributed to increased production of durable goods, which rose from 180 percent in November to 202 percent in December. Nondurable goods production remained at substantially the same rate.

Employment Down

A seasonal drop in business activity caused a decline of 1,609,000 in the number of employed workers and an

increase of 991,000 in unemployment to a postwar high of 4,480,000 workers. More than 600,000 temporary workers withdrew from the labor force. Nonagricultural employment, even though it dropped sharply from December, exceeded that of January, 1948. Bureau of Census data, in thousands of workers, are as follows:

	January 1950	December 1949	January 1949
Civilian labor force.....	61,427	62,045	60,078
Employment.....	56,947	58,556	57,414
Agricultural.....	6,198	6,773	6,763
Nonagricultural.....	50,749	51,783	50,651
Unemployment.....	4,480	3,489	2,664

The accompanying chart shows that even though total unemployment in 1949 was considerably higher than in 1947 and 1948, nonagricultural employment in 1949 remained for the most part well above 1947. In the last four months of the year the number of nonfarm workers on the job compared favorably with the postwar boom year of 1948.

A record \$56.20 was the average weekly pay received by 11.5 million production workers in December, as wages recovered to exceed the pre-recession high of \$56.14 set in December, 1948. Average weekly hours for all manufacturing firms increased from 39.2 to 39.8. Most of the increase in wages was caused by the post-strike recovery in December, but average hourly wages were also up slightly in many cases.

Department Store Sales Lag

In spite of January bargain sales, clearance sales, and "white" sales, department store sales in the four weeks ended January 28 were 8 percent below those of the corresponding period of 1949. Chiefly responsible for the month's comparatively low sales was the January 2 holiday, which shortened the first week to five days. Sales of that week were cut 25 percent below the corresponding week of 1949. The month's drop was shared by all but one section of the country; only the Kansas City Federal Reserve District, with no change, did not show a decline. Throughout the month, however, sales improved, and in the last week, with seven of the twelve reserve districts showing improvements over the previous year, the national total was 2 percent higher than in 1949.

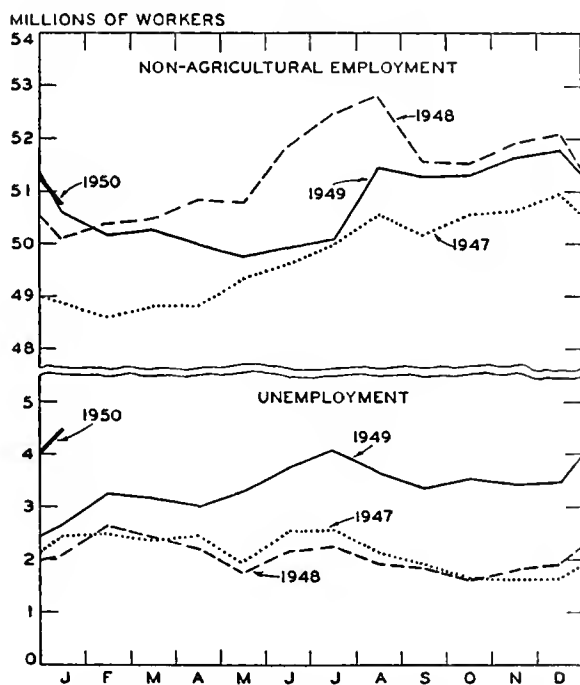
The Federal Reserve Board has also reported that consumer credit jumped 5.5 percent during December, from \$17,810 million to \$18,788 million. This is \$2,469 million over the year-end 1948 figure. Nearly all of the yearly increase in consumer credit was concentrated in installment buying, which rose \$2,312 million over the end of 1948.

Total retail sales for December are estimated at \$12.8 billion by the Office of Business Economics, about 2.5 percent lower than December, 1948, sales. After seasonal adjustment the decline from November to December was only 1 percent. A 10 percent decline in automotive sales connected with model change-overs was the chief factor in the decrease.

Trade Gap Widens

Net exports of the United States, the excess of exports over imports, increased again in December, to \$338 million from \$242 million the previous month. Gross exports, rising from \$836 million in November to \$943 million in December, were still 6 percent below the average

NON-AGRICULTURAL EMPLOYMENT AND TOTAL UNEMPLOYMENT



Source: Bureau of the Census.

monthly figure for the first eleven months of 1949. Imports rose at the same time from \$594 million to \$605 million, 11 percent over the January-November monthly average for 1949. Total merchandise exports for 1949 amounted to \$12,000 million, whereas imports totaled \$6,626 million, leaving a gap of \$5,374 million to be covered by sale of such invisibles as shipping, insurance, and banking services, and by our foreign aid program.

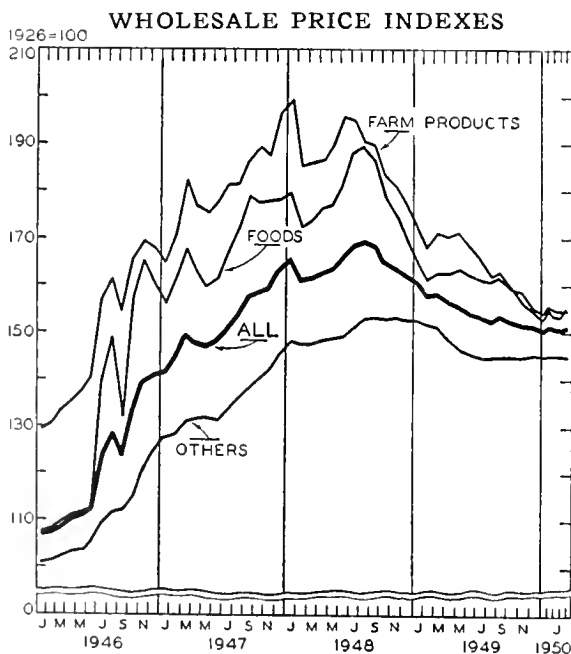
The third quarter visible trade gap, totaling \$872 million, was considerably under the net Federal government aid of \$1.2 to \$1.5 billion extended in each of the first three quarters of the year through the European Recovery Program and aid to other countries. This continued high level of aid, together with their somewhat lower trade deficit with the United States, has enabled a number of countries to add small amounts of badly needed dollars or gold to their dangerously low reserves.

Prices Continue Steady

Wholesale prices continued substantially level, rising less than one-half of one percent during January, to 151.1 percent of the 1926 average on January 31. Most of the slight increase reflected higher prices for farm products. The accompanying chart shows graphically that the decline in prices during 1949 was caused largely by falling prices for foods and farm products, and since June almost entirely by declines in food and farm prices.

Increases in the prices of truck crops and meat animals in the month ended January 15 raised the revised index of farm prices received to 235 percent of the 1910-1914 average, 2 points above the December 15 index. During the same period, however, prices paid by farmers rose more sharply to 249 percent of the base, so that the parity on the new basis fell from 95 to 94.

The consumers' price index continued steady, falling only 0.7 percent in the month ended December 15 to 167.5 percent of the 1935-39 average. A decrease in food prices from 200.8 percent to 197.3 percent was the main cause of the decline. Of the other subgroups, only apparel showed a price decrease; housefurnishings showed no change and the fuel-electricity-ice, rent, and miscellaneous groups were marked by fractional increases.



Source: Bureau of Labor Statistics.

Deficit No Key to Policy

(Continued from page 2)

On the best appraisal that can now be made of probable action in Congress, the deficit will continue, at least into 1951. Support for expenditure programs and for tax limitations or reductions is so great that balancing of the budget in the near future seems unlikely. But this does not imply doom or disaster. A deficit of the current moderate amount presents no serious problem. If a \$5 billion deficit continued for twenty years, adding \$100 billion to the national debt, interest charges would rise from \$5 billion to \$7 billion annually, but would still represent only a sixth of a \$43 billion budget.

Economic Effects of Deficits

The complexities that surround the deficit are not confined to the problems of government finance but affect equally the problems of economic response. Last month, it was pointed out that the growth of the deficit had been accompanied by deflation rather than inflation. Since then, unemployment has risen to a postwar high of 4.5 million in January. Now, not only are available labor reserves practically unlimited, but the army of the unemployed is near the upper limit of tolerance. More than a little improvement will be needed to eliminate the recurring unemployment problem.

Consider how changes in the deficit could affect the outcome. Again the answer has to be given in terms of expenditures and receipts. A deficit growing because tax receipts are falling with a decline in income moderates the decline a little, but cannot be a positive force for recovery. In fact, the total effect of a growing deficit produced by sharply falling tax receipts and less rapid expenditure reductions could well be deflationary. Reductions in tax rates might be tried, but most of these would provide an inefficient means of compensating the decline, and would probably add more to the problem of government finance than they contributed to economic activity. Alternatively, expenditure programs could be expanded. Any of these measures would add to the deficit without producing any threat of inflation.

Furthermore, equal dollar changes in expenditures and revenues are not necessarily equal in economic effects. The tax changes proposed by President Truman, with a decrease in excise taxes offset by increases in certain income taxes, would be stimulating without affecting the deficit. Similarly, some expenditure programs would be more stimulating than others; for example, to the extent that mortgage purchases merely displace private capital, such expenditures have little effect. In boom periods, a deficit tends to be self-correcting if expenditure programs are held even fairly stable, because tax receipts quickly catch up. Yet, the increase in tax receipts places little restraint on the advance; and an increase in programs fully covered by higher tax receipts could well be inflationary, especially if concentrated in key areas.

All this again reinforces the conclusion that the deficit is no key to policy. In any situation, it is necessary to consider the specific types of program and tax changes that could be effective, and their relative advantages to the nation. Certainly, if business activity falls, there is little hope of eliminating the deficit, or even of holding it constant. At a time when unemployment is already becoming a problem, the wisest course hardly seems to be frightened by the mere thought of a deficit into indiscriminate cutting that might initiate a serious decline. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Wartime Agricultural Mobilization

Wartime Economic Planning in Agriculture (New York: Columbia University Press, \$6.75) is an analysis of the nation's wartime experience in the mobilization and allocation of agricultural resources. This study, by Professor Bela Gold, points out that agricultural mobilization during the war failed to achieve its goals, which included easing import deficiencies, maximizing food supplies, reducing excessive domestic consumption, and minimizing agriculture's demand on productive and distributive resources. Although production did increase, the requirements of war were universally underestimated by agricultural planning, and it became clear that effective mobilization was not synonymous with maximum output. The difficulties involved in mobilizing agriculture during the war are relevant both to peacetime problems of government regulation and to possible future preparedness programs.

Plastic Packaging

Flexible bags, foils, and window-type containers have been proved to stimulate consumer demand and increase impulse buying. This has led to a trend toward prepackaging, especially in meats, vegetables, and fruits. A Department of Commerce release, *Trends in Plastic Packaging*, analyzes developments and trends in plastic and transparent packaging, with especial regard to their influence on the growth of self-service stores. The release may be obtained from either the Chicago or Milwaukee office of the Department of Commerce (10¢).

Stock Certificates

Many security holders have no idea how their stock is issued and transferred. A graphic description of the procedures involved in the manufacture and sale of stock certificates is contained in a recent issue of *The Lamp*, a publication of the Standard Oil Company of New Jersey. Entitled "Precious Paper," the article tells what happens between the time a security holder instructs his broker to purchase stock for him and the arrival of the stock certificate. It also gives instructions as to the procedure for replacing destroyed, lost, or stolen certificates. Reprints of the article are available from the Standard Oil Company (New Jersey), Room 1626, 30 Rockefeller Plaza, New York 20, N. Y.

New Products

Newsprint and book grades of paper have been successfully manufactured for the first time from bleached pulp produced from bagasse, the waste of sugar cane. Newsprint made at the Chemical Paper Manufacturing Company in Holyoke, Massachusetts, was tested last month by a Holyoke daily newspaper before a gathering of printing experts from this country and from abroad. They expressed satisfaction with both the action of the paper in the press and the appearance of the paper, which has good receptivity of ink and a fine white color.

Plans for the manufacture of frozen milk which would have the exact taste and food content of fresh milk were revealed at the January Frozen Food Convention in Chicago. Although it is still two or more years away from commercial development, the industry is con-

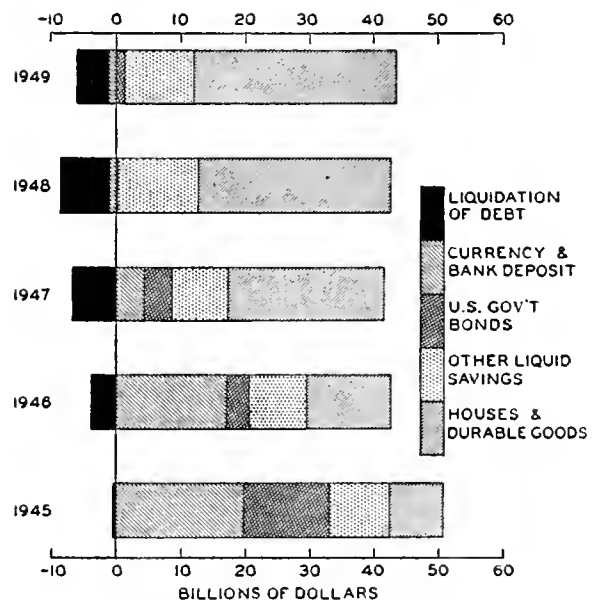
fident that the milk, which would come in a six-ounce can like frozen orange juice, will eventually "change the entire character of the dairy industry."

Consumer Saving

The January *Federal Reserve Bulletin* contains a report on a recent Federal Reserve survey on "Distribution of Consumer Saving in 1948." Consumer saving in 1948 saw a continuation of the gradual changes in saving patterns that have been going on since the war: an increasing proportion of consumer spending in excess of money incomes, and an increasing proportion of total net saving accounted for by the highest third of the income distribution—largely due to increased dissaving by lower income groups. Approximately half of all spending units in 1948 reported some indebtedness, and there was a somewhat greater use of credit and less spending of liquid assets.

A more simplified presentation of recent trends in consumer saving is contained in an article on "Consumer Income and Saving, 1945-1949" in the December issue of the *Monthly Labor Review*. The article discusses the very large and rapid shifts in postwar rates of personal saving. As shown by the chart, there have also been significant changes in forms of saving. Liquid saving, which formed the bulk of total saving during the war, experienced a sharp decline after 1945, which extended until 1948. At the same time, there was a very large increase in saving in the form of durable goods and houses, almost unavailable in wartime, a trend which has continued through the latest fiscal year. The components of liquid saving have greatly changed during the postwar period, with currency and bank deposits declining sharply and government bonds dropping to a postwar low in 1948.

GROSS SAVINGS OF INDIVIDUALS
(By fiscal years)



Source: Securities and Exchange Commission.

THE FEDERAL BUDGET FOR FISCAL 1951

W. M. CAPRON, Assistant Professor of Economics

Even before January 9, when President Truman sent his 1951 Budget message to the Congress, members of both Houses and both parties had made it abundantly clear that the level of Federal expenditures and revenues for the year beginning next July 1 would occupy the center of the legislative stage for most of the current session. A record number of legislators have placed themselves on the economy bandwagon and expressed their views that a balanced budget—or at least a sharp reduction in the deficit—is necessary. It is, however, generally recognized that there are many factors which will make movement toward this goal difficult of achievement.

The Budget presented by the President embodies estimates of the amounts necessary to carry out the program of the Federal government in the coming fiscal year, and compares these estimates with the figures for the current and preceding years. Chart 1 shows Federal expenditures and receipts beginning with 1938 and the resulting deficits or surplus, including estimated figures for 1950 and 1951. (Fiscal years used throughout.)

A decline in total estimated expenditures in 1951 to \$42.4 billion from the 1950 level, estimated at \$43.3 billion, will be matched in part by a decline in revenues estimated to be \$37.3 billion in 1951, compared with \$37.8 billion in the current year, so that the deficit will be at about the same level, falling slightly from \$5.5 billion in 1950 to \$5.1 billion in 1951. These figures for postwar years can be contrasted with those for 1939, when, with total expenditures of \$9 billion, the deficit was \$4 billion. The great increase in the level of outlays underlines the changed role in world affairs which this country is being forced to play, plus the changing role of the government in our domestic economic life, and the continuing impact of the Second World War.

The estimates of receipts for 1951 included in the Budget message are based only on existing tax legislation. Senator Douglas of Illinois and others regard these revenue estimates as overly conservative and feel that the deficit is thereby exaggerated. Moreover, since delivering his Budget message President Truman has proposed changes in tax laws which on balance would increase revenues. Although calling for reduced excise taxes, his

proposal includes a recommendation for increased corporate income taxes and the plugging of certain loopholes in existing legislation.

Expenditure Programs

A proper appreciation of these aggregate figures requires a closer look at the major components of the Budget. For 1951 the President estimates that about 71 percent of total expenditures will be for "financial requirements to pay the costs of past wars and to achieve a peaceful world." Included under this general heading are the first four items in Chart 2, which shows Federal expenditures for 1949, 1950 and 1951, classified by major governmental function, in order of size.

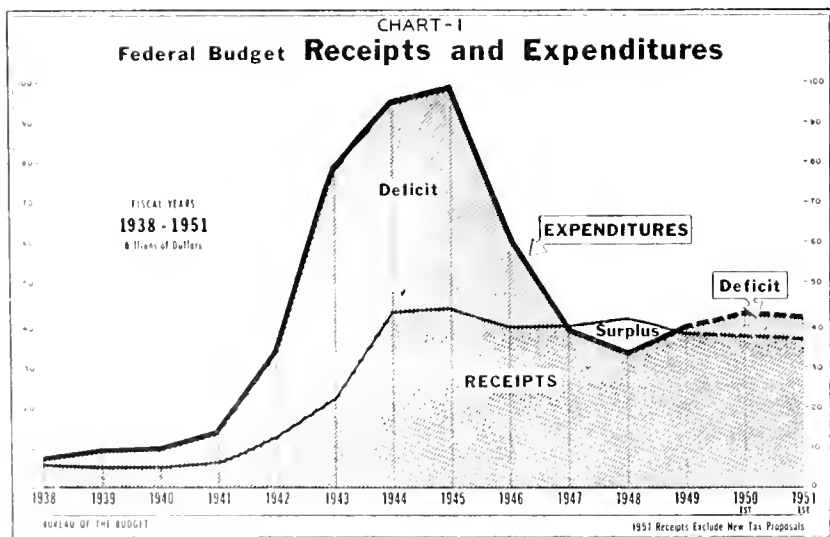
Expenditure estimates for these purposes are \$1.8 billion below 1950, and \$3.4 billion below 1947, the peak postwar year, when these items represented 85 percent of the total budget. By way of contrast, we may note that in 1939 outlays for these four key categories were not only much below present levels in total amount, but represented only 24 percent of the total budget.

The projected 1951 decline in these expenditures is accounted for in the main by a decrease in outlays for foreign aid and for veterans. These reductions more than offset a moderate increase in national defense expenditures from \$13.1 billion to \$13.5 billion. The reduction in international affairs and finance results chiefly from an estimated expenditure for the European Recovery Program of \$3.3 billion compared with the present rate of \$4.1 billion, plus a drop in aid to occupied areas.

Other expenditures, which make up the remaining 29 percent of the 1951 Budget, total \$12.5 billion, or about \$1 billion more than the 1950 level. On Chart 2, three components of this section of the Budget show substantial increases. The increase of some \$400 million in expenditures for the first of these—social welfare, health, and security—brings outlays for this function to their highest level since 1939, and is accounted for primarily by additional grants-in-aid to state governments for public assistance programs and an increase in outlays for public health activities.

In the next category, natural resources, the estimate for the Atomic Energy Commission (which is included here and not under national defense) calls for an additional \$150 million, while the outlays for flood control and reclamation will require about \$250 million more than last year. These funds are required to complete projects already authorized; no new programs are contemplated.

Almost \$1 billion in outlays for housing and community development will go for mortgage purchases by the RFC in support of the private mortgage market; for most of this outlay the government will subsequently be reimbursed. Also, the President recommends loans for housing for middle-income groups, as well as expanded aid to localities in slum clearance and redevelopment projects. The jump in estimated expenditures for education is accounted for



primarily by the proposal to make grants to localities to aid in elementary and secondary school operation.

The estimated outlays for agricultural activities anticipate lowered requirements for price supports as a result of more effective acreage allotment and marketing quota programs. The remaining activities of the Federal government are anticipated to require approximately the same amounts as in 1950.

How Much Economy Is Possible?

The President included in his estimates of 1951 expenditures the amounts required to implement legislation which he has proposed. In answer to attacks on this program on economy grounds, it has been pointed out that total gross additional expenditures recommended by the President to implement his proposed legislation would be slightly less than \$1 billion. However, one of the President's proposals calls for increased postal rates sufficient to add nearly \$400 million to revenues, and therefore net outlays required for these new programs would be only \$60 million. The fact that such a relatively moderate increase would result from approval of the President's program is due in part to the fact that many of the most controversial items would be largely or wholly self-supporting, such as the proposals for health insurance and increased social security coverage.

In practice, the Congress has never been willing to commit itself irrevocably on the over-all level of expenditures, but finds it necessary to examine each item in the Budget. This detailed Congressional examination is the last of a long and arduous series of screenings to which the Budget is subjected. Each item ordinarily undergoes careful scrutiny at several stages, to ensure that it is justified, first within the individual departments and agencies and finally by the Bureau of the Budget. There are indications that this policy is not without effectiveness. For example, Secretary of Defense Johnson has indicated that the original requests for funds made by the three armed service branches totaled more than \$20 billion, so that the estimate of \$13.5 billion in the President's Budget represents a drastic slash.

Washington observers make the point that there is a good possibility that Congress may actually appropriate more, rather than less, than the President has requested for certain functions, especially since this is an election year. There is the possibility that Congress may again demand a larger Air Force than was called for by the President, adding to expenditures in this area. Similarly, nearly every item in the Budget finds strong support from some group in the nation which derives especial benefit from it.

Careful examination of the details of the recommended 1951 Budget appears to justify the President's statement that this Budget holds the promise for a continuing decline in expenditures for future years. This is true, despite the fact that certain of the newer programs will undoubtedly call for some increase in required outlays.

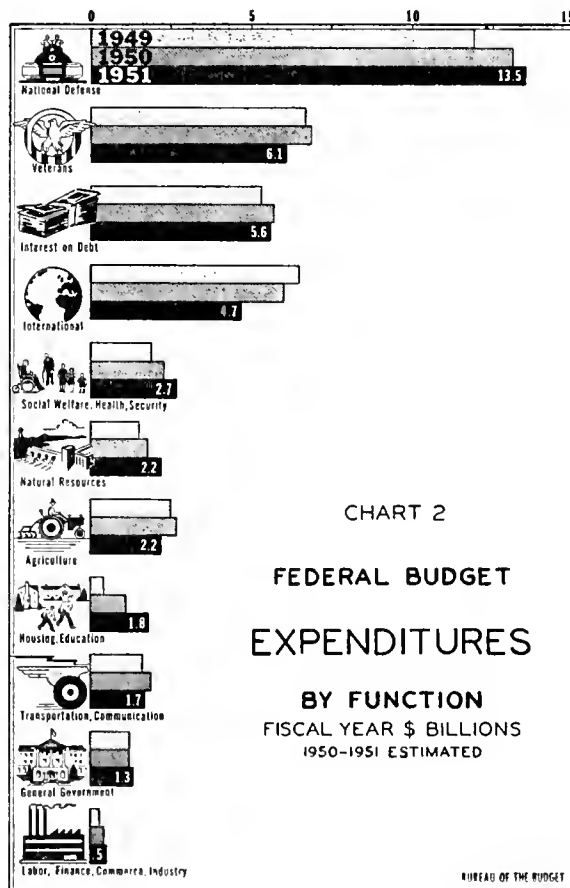
In considering the over-all economic impact of the budget, economists frequently call attention to the cash transactions of the Federal government with the public. These figures differ from the regular budget expenditure and receipt figures in that they exclude non-cash and intra-governmental transactions, which consist in large part of transfers of funds between regular government accounts and trust funds, for example, Social Security. According to estimates for 1951, cash receipts will rise from \$41.7 billion in the current year to \$43.1 billion,

while payments to the public decline from \$46.5 billion to \$45.8 billion, resulting in a decrease in the excess of payments to the public over receipts, from \$4.8 billion to \$2.7 billion. On this basis, the 1951 Budget represents a substantial decrease in the economically significant cash deficit, although the regular deficit estimate of \$5.1 billion for 1951 represents little change from 1950.

Any answer to the statement that Federal expenditures must be cut at all costs has to be made with regard to the large proportion of war-connected expenditures. If consideration is given to the role that our government is currently called upon to play in international and domestic affairs, then it must be recognized that there are serious limitations on the possibility for significant variations in the level of governmental expenditures.

Just as all of us are against sin, so we all oppose waste in government. Most people agree that there are possibilities for greater economy in the execution of governmental activities. The question is, however, how best to get economy without endangering necessary and important Federal functions. There seems to be considerable doubt as to whether "across the board" cuts in the Budget are the most efficient or desirable method of achieving economy.

Moreover, once it is decided that any function should be performed by the Federal government, it would be contradictory to withhold the necessary funds from the agencies charged with carrying out that function. Whatever view is held on this issue, there is little doubt that the members of Congress undertake a difficult and important task in deciding what funds are necessary to implement the Federal program and how these funds should be provided.



LOCAL ILLINOIS DEVELOPMENTS

Significant gains were recorded by most Illinois business indicators in December over the preceding month. Electric power production was up 10 percent, construction contracts awarded rose by 21 percent, bank debits increased 14 percent, and sales of ordinary life insurance advanced 11 percent. Coal production was the one major industrial activity that failed to gain in December. Output dropped to 3.5 million tons during the month, down 19 percent from November, as a result of the 3-day work week observed by most miners in the State.

A slight seasonal increase in petroleum production in December brought the year's total to 65 million barrels, the same as in 1948. A total of 2,729 wells was drilled during the year, 240 more than in the preceding year. Peak activity in 1949 well drilling was reached in December, when 299 wells were completed, most of them in Fayette, Lawrence, and Edgar counties.

Department Store Sales

Although department store sales throughout the State in December averaged 44 percent above November, sales were slightly below the December, 1948, record. For the year, department store sales in Illinois were off approximately 6 percent from 1948. Joliet was the only reporting Illinois city for which department store sales in 1949 exceeded 1948 sales.

Total retail sales in the State in 1949 were probably slightly in excess of the 1948 level, judging by the State Treasurer's report that the retail sales tax produced a record high of \$170 million in 1949, 1.5 percent above 1948. Retail sales in Chicago stores in 1949 were down 2 percent from 1948, according to the Bureau of the

Census. A breakdown of sales by selected groups of stores, as shown in the chart below, reveals that only automobile, and radio and household appliance dealers showed significant gains in 1949. On the other hand, sales of apparel, excluding shoes, and jewelry stores were down by 10 percent or more from their 1948 levels.

Employment and Payrolls

A 2 percent gain in manufacturing employment and a 5 percent rise in payrolls in the State were recorded for the 30-day period, November 15 to December 15. Joliet showed the largest gain, but this primarily represented call-backs of workers who had been laid off in October because of the steel and coal strikes. Compared with December, 1948, manufacturing employment and payrolls in the State were off approximately 11 percent, with Quincy and Springfield showing declines of 20 percent or more. Bloomington was the only city to report a gain over December, 1948.

The downward trend in employment in the State throughout most of 1949 resulted in increased claims for unemployment insurance. Continued claims filed for unemployment insurance in Illinois in 1949 averaged 126,000 a week, approximately double the average number filed in 1948. The total amount of benefits paid during 1949 was also about double the 1948 amount. Throughout the United States, continued claims filed rose by only 77 percent although benefits paid in 1949 more than doubled.

Construction

Industrial developments in the Chicago area in January totaled \$22 million, according to the Chicago Association of Commerce and Industry. This was the largest volume recorded for a single month since September, 1948, and also the largest January total on record.

Hotpoint, Incorporated, is planning a \$12 million refrigerator plant in West Chicago, opposite its former electric range factory. Completion date for the plant is set for early summer, 1951, and production is to start late that summer. About 3,000 persons will be employed. The company plans to manufacture all its 1952 refrigerators in the plant. Retooling of the former range factory for the manufacture of home laundry equipment will be completed this year.

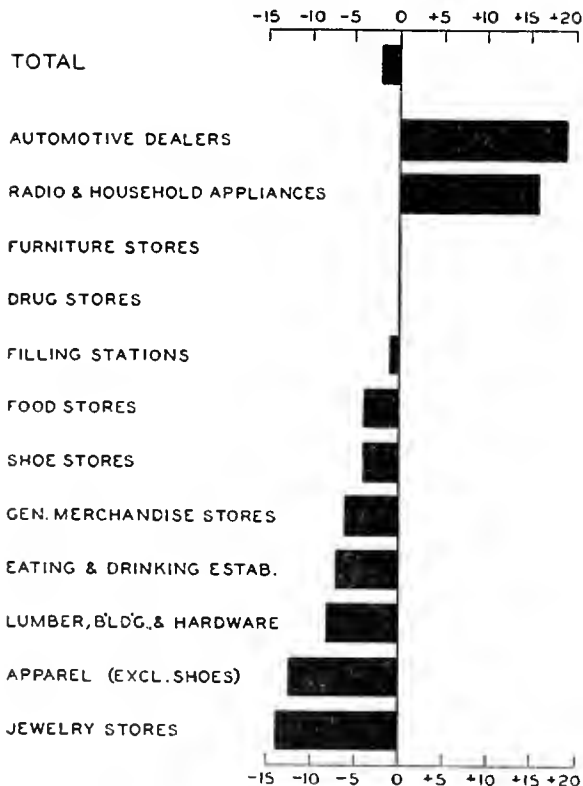
Another important development in the Chicago area was the announcement by Budd Company (of Philadelphia and Detroit), manufacturer of automobile bodies, wheels, and steel railroad cars, that it had acquired a site of 140 acres near Gary, Indiana, and would start immediately to construct a large stamping and body assembly plant.

Prices

On December 15, the BLS consumers' price index for Chicago stood at 173.2 percent of the 1935-39 average, down one percent from November 15. A reduction in food costs accounted for the decline, which brought the combined index 1.3 percent below the December, 1948, index.

The index of retail food costs in Peoria on December 15 was down to 206.5 percent of the 1935-39 average, 2 percent below November 15, and approximately 5 percent below December, 1948. In Springfield the index of retail food costs was 201.6 percent of the 1935-39 average, down 1.4 percent from November 15, and 6 percent below the December, 1948, level.

SALES OF RETAIL STORES IN CHICAGO
(Percentage change, 1948 to 1949)



Source: Bureau of the Census.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

DECEMBER, 1949

	Manufacturing ¹ Employment & Payrolls (Indexes 1935-39 = 100)		Building Permits ¹ (000)	Depart- ment Store Sales ²	Bank Debits ² (000,000)	Postal Receipts ³ (000)
ILLINOIS	114.2	270.5	\$14,275 ^a		\$9,429 ^a	\$14,861 ^a
Percentage Change from... { Nov., 1949...	+2.0	+5.1	-25.4	+43.8	+13.7	+20.5
Percentage Change from... { Dec., 1948...	-11.0	-11.6	-34.7	-3.3	-10.5	+10.4
NORTHERN ILLINOIS						
Chicago	114.5	272.6	\$11,539		\$8,612	\$12,799
Percentage Change from... { Nov., 1949...	+0.8	+3.4	-16.7	+43.5	+14.6	+16.4
Percentage Change from... { Dec., 1948...	-11.6	-12.4	-37.8	-3.5	-10.7	+9.8
Aurora	118.7	299.7	\$ 131		\$ 37	\$ 112
Percentage Change from... { Nov., 1949...	+1.1	+2.8	-35.1	+43.2	+10.4	+56.2
Percentage Change from... { Dec., 1948...	-15.2	-19.4	-46.3	-0.3	-6.4	+20.5
Elgin	102.9	247.8	\$ 130		\$ 25	\$ 103
Percentage Change from... { Nov., 1949...	+0.0	-1.5	-31.3	+48.4	+7.1	+18.9
Percentage Change from... { Dec., 1948...	-3.3	-6.6	+257.7	+0.1	-9.4	+24.8
Joliet	93.6	237.7	\$ 126		\$ 42	\$ 121
Percentage Change from... { Nov., 1949...	+39.7	+64.4	-78.2	+55.7	+12.6	+117.2
Percentage Change from... { Dec., 1948...	-13.3	-17.4	+15.9	-0.7	-6.4	+27.1
Kankakee	125.5	348.0	\$ 67		n.a.	\$ 47
Percentage Change from... { Nov., 1949...	+2.9	-2.8	-67.5	+33.5		+56.4
Percentage Change from... { Dec., 1948...	-17.3	-17.7	+4.4	-3.5		+24.2
Rock Island-Moline	111.8	272.5	\$ 182		\$ 29 ^b	\$ 190
Percentage Change from... { Nov., 1949...	+3.8	+7.4	-70.0	n.a.	+2.6	+47.1
Percentage Change from... { Dec., 1948...	-16.7	-14.6	-44.9		-2.5	+20.4
Rockford	138.9	364.2	\$ 307		\$ 102	\$ 226
Percentage Change from... { Nov., 1949...	+3.5	+9.6	-25.2	+50.4	+16.4	+56.9
Percentage Change from... { Dec., 1948...	-8.6	-16.6	-62.4	-7.4	-6.8	+2.1
CENTRAL ILLINOIS						
Bloomington	79.9	177.1	\$ 138		\$ 41	\$ 94
Percentage Change from... { Nov., 1949...	+0.7	+3.8	+116.3	n.a.	+2.2	+29.3
Percentage Change from... { Dec., 1948...	+6.5	+4.4	+94.5		-9.0	-2.5
Champaign-Urbana	n.a.	n.a.	\$ 337		\$ 38	\$ 113
Percentage Change from... { Nov., 1949...	+4.8	+6.5	+35.3	n.a.	-7.6	+31.0
Percentage Change from... { Dec., 1948...	n.a.	n.a.	+329.6		-5.8	+13.2
Danville	78.4	209.0	\$ 49		\$ 35	\$ 80
Percentage Change from... { Nov., 1949...	+2.4	+8.2	-88.0	+47.1	+5.9	+63.9
Percentage Change from... { Dec., 1948...	-7.4	-3.9	-43.8	-1.4	-3.8	+17.9
Decatur	108.1	279.6	\$ 375		\$ 70	\$ 116
Percentage Change from... { Nov., 1949...	-3.7	-1.2	+1.2	+40.9	-2.3	+49.2
Percentage Change from... { Dec., 1948...	-8.8	-5.7	+87.8	+1.1	-4.5	+10.4
Galesburg	n.a.	n.a.	\$ 30		n.a.	\$ 48
Percentage Change from... { Nov., 1949...	-0.5	-6.4	-95.8	n.a.		+65.5
Percentage Change from... { Dec., 1948...	n.a.	n.a.	-31.2			+13.8
Peoria	152.4	292.5	\$ 230		\$ 159	\$ 285
Percentage Change from... { Nov., 1949...	-1.4	+1.2	-46.2	+40.3	-6.2	+73.9
Percentage Change from... { Dec., 1948...	-3.3	-10.9	-46.6	-2.3	-12.6	+23.6
Quincy	98.3	197.3	\$ 256		\$ 31	\$ 90
Percentage Change from... { Nov., 1949...	+6.2	+12.0	+21.5	+42.0	+5.4	+51.3
Percentage Change from... { Dec., 1948...	-24.6	-28.7	+90.2	-4.0	-2.3	+16.1
Springfield	211.9	557.5	\$ 204		\$ 76	\$ 251
Percentage Change from... { Nov., 1949...	+1.2	+4.4	-25.4	+52.6	+15.0	+46.5
Percentage Change from... { Dec., 1948...	-31.5	-26.5	+67.3	-3.9	-6.8	+4.6
SOUTHERN ILLINOIS						
East St. Louis	109.7	237.6	\$ 104		\$ 106	\$ 87
Percentage Change from... { Nov., 1949...	+0.3	+7.2	-44.5	+47.0	+19.6	+89.3
Percentage Change from... { Dec., 1948...	-8.5	-10.3	-76.9	+8.0	-20.1	+18.6
Alton	155.3	423.5	\$ 34		\$ 27	\$ 44
Percentage Change from... { Nov., 1949...	+1.2	+0.7	-59.3	n.a.	+17.4	+52.6
Percentage Change from... { Dec., 1948...	-14.5	-9.1	+17.0		-0.1	+19.2
Belleville	70.8	181.3	\$ 34		n.a.	\$ 55
Percentage Change from... { Nov., 1949...	+1.0	+8.8	-58.5	n.a.		+79.3
Percentage Change from... { Dec., 1948...	-14.3	-16.9	-31.2			+23.0

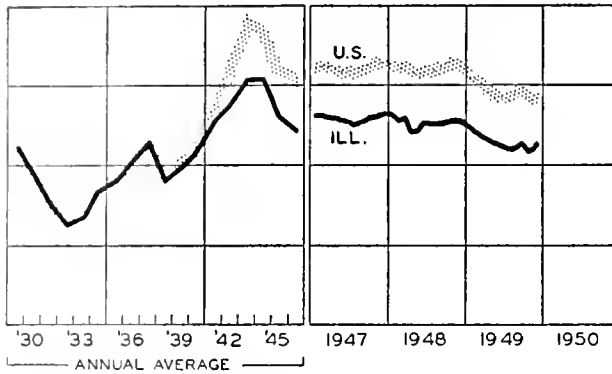
Sources: ¹ Illinois Department of Labor. Data on employment and payrolls include plants in areas surrounding designated cities.² Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ³ Local post office reports.^a Total for cities listed.^b Moline only.

n.a. Not available.

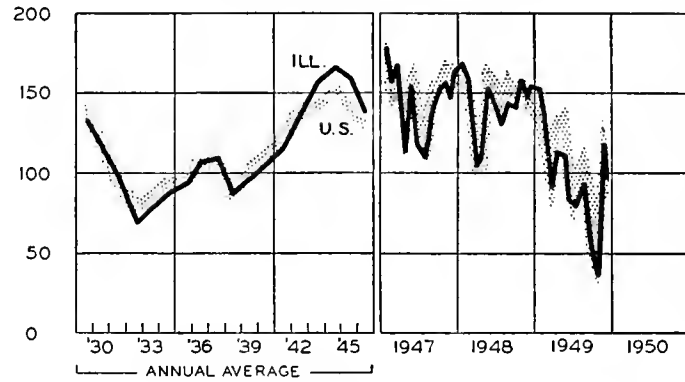
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

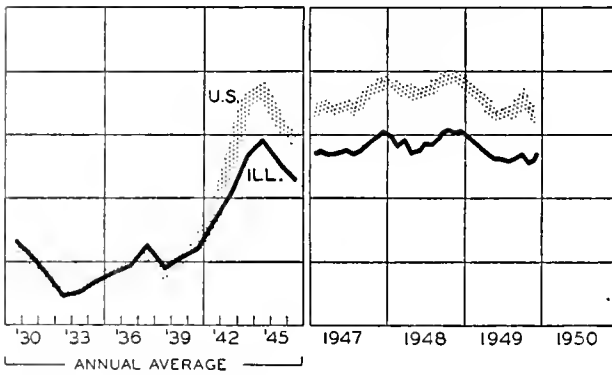
EMPLOYMENT-MANUFACTURING



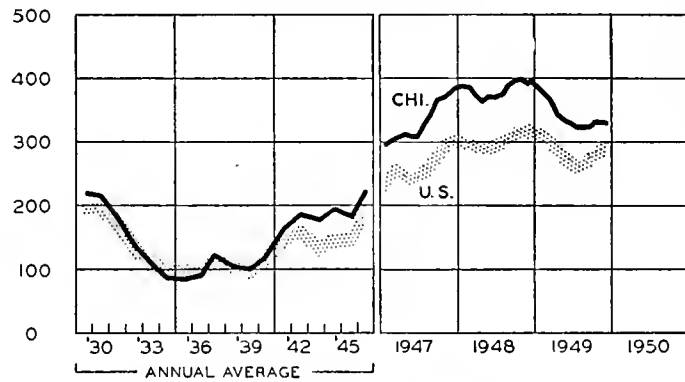
COAL PRODUCTION



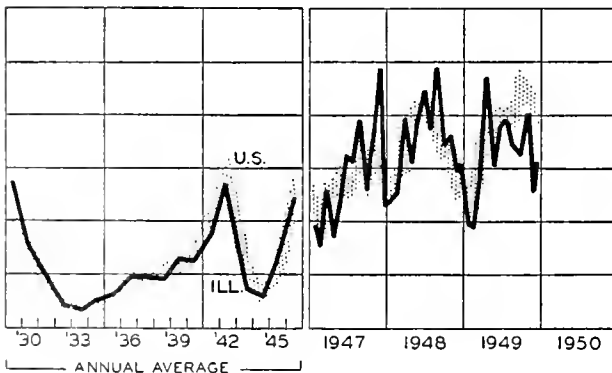
PAYROLLS-MANUFACTURING



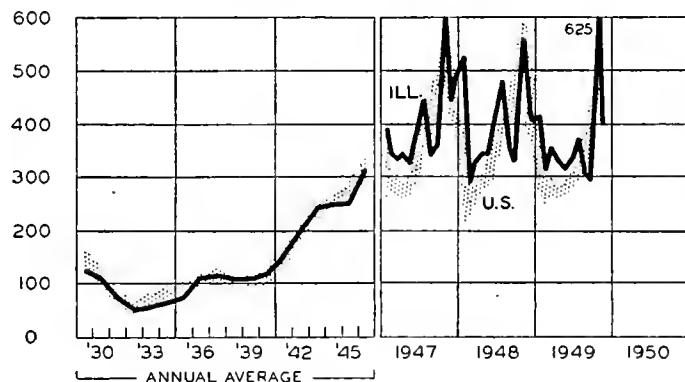
BUSINESS LOANS



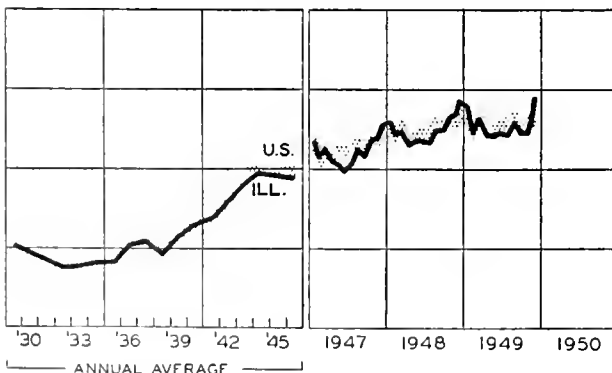
CONSTRUCTION CONTRACTS AWARDED



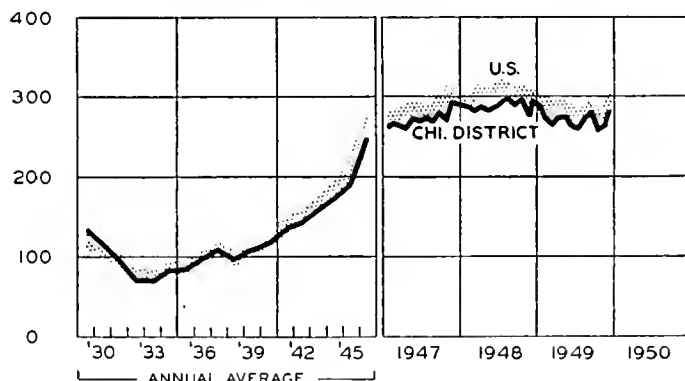
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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NUMBER 3

HIGHLIGHTS OF BUSINESS IN FEBRUARY

Handicapped by the effects of the coal strike, industrial activity declined in February. Preliminary estimates place the Federal Reserve Board index of industrial production at 178, 5 points below the January level. By the end of the month, steel production was down to 74 percent of capacity, motor vehicle production was running about 10 percent under the last week in January, and freight carloadings had dropped nearly 20 percent on the same basis.

The month witnessed some improvement in the position of farmers, as higher prices for hogs, beef cattle, lambs, and cotton brought a 2-point rise in the index of prices received by farmers. As a result, the parity ratio rose to 96, an increase of 2 points over last month. Higher prices for farm products were also mainly responsible for a rise of 1.4 points in the wholesale price index, which stood at 159.4 percent of the 1926 average at the end of February. Prices of commodities other than farm products and foods remained steady.

Unemployment Rises, Employment Steady

Unemployment in February rose by 200,000 to 4.7 million, the highest level in the postwar period. This excludes workers idled by the coal strike. The slight increase in unemployment is attributed mainly to the seasonal rise in the labor force at the end of the fall school semester rather than to any decline in employment.

Total civilian employment and nonfarm employment held steady at the January levels of 57.0 and 50.7 million respectively. This is in contrast with the corresponding period last year when cutbacks in employment led to a decline of 500,000 in nonfarm employment.

Construction Maintains Record Pace

Construction activity in February set an all-time high for the month. New construction put in place during the last three months surpassed all previous records of mid-winter construction in terms of physical volume as well as in dollar outlay.

The \$1.4 billion of new construction exceeded last February's high by 21 percent and was only 5 percent below January, a less-than-seasonal decline. Total private

building was up 19 percent and public building rose 26 percent over last February.

Home building is the big gun in the current boom, accounting for 44 percent of total construction activity in the month. Private nonfarm residential building was up 50 percent to \$600 million, and publicly financed home building tripled as compared with February, 1949. Private nonresidential building was the only major category to decline from last February, down 9 percent, mainly because of a 33 percent drop in industrial building.

Manufacturers' Sales Up, Inventories Level

Manufacturers' sales in January rose more than seasonally over December, 1949. On a seasonally-adjusted basis, sales rose to \$17.5 billion, 4 percent above December and about 1 percent over last January. Durable-goods sales rose the most, by 5 percent over December, largely because of accelerated activity in the automobile industry.

New orders of manufacturers in January showed their first upturn since last September. The rise occurred in both durable and nondurable sectors. The book value of inventory holdings by manufacturers showed no change from the December low of \$30.8 billion. Since new orders in January were above sales, need for additional inventories may be indicated.

Exports Decline as Imports Rise

Substitution of foreign for American goods by dollar-hungry nations led United States exports in January to drop to \$744 million, the lowest point since October, 1946. This was 21 percent below December and 30 percent below the January, 1949, figure. Machinery and vehicle exports showed the largest declines. Concurrently, imports rose for the fifth successive month, to \$623 million, owing to increased shipments of textile fibers and manufactures.

As a result, the dollar gap fell sharply. The merchandise balance of trade in January was \$121 million, as compared with \$338 million in December and a monthly average of \$450 million in 1949. Continuation of this low balance is not likely in view of the availability of American dollars under the foreign aid program.

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Outlook for Profits in 1950

The prospective rebound of business activity from the coal-strike lows reinforces the optimism with which the spring months have been viewed by most business analysts. Doubts arise mainly as to the latter part of the year. These doubts gain emphasis in the minds of many as the stock market advances toward a test of the resistance level at the 1946 highs. Therefore, for whatever they may be worth, we present briefly the following results of our own review:

General Business Conditions

There are both positive and negative factors in the current business picture, on balance pointing toward higher levels.

1. Inventories were still being liquidated at the end of 1949. Since inventories are still below normal, even allowing for the long-term downtrend in their relation to sales, it is likely that liquidation will cease before the end of 1950 and be replaced by a limited rate of accumulation.

2. Government expenditures for goods and services, other than foreign aid, are still definitely pursuing an upward trend.

3. The foreign aid program will begin to decline after mid-1950, though the decline will be partly offset by the increase in military assistance for Western Europe. However, net foreign investment dropped to a new postwar low in the fourth quarter of 1949; and since net exports were then considerably less than the aid being granted, a higher level of exports is to be expected.

4. The construction boom is sparked by new highs in residential building. Various explanations are offered to show why this high rate of housing construction is only temporary; but none of these seems as forceful as the simple and direct explanation that the country really needs the houses which are being built.

5. Business outlays for plant and equipment have been declining, with the result that excess rates of investment based on backlogs have almost disappeared. Hence, a normal response of capital expenditures to generally prosperous conditions would call for a slight increase rather than any further decline in the latter part of the year.

6. A more definitely negative factor will be the reduction of consumer purchases on credit, which reached

a very high rate at the end of 1949, supported by peak automobile sales. However, a moderate decline in sales will not greatly affect the auto industry and will allow some reversal of the 1949 shift in consumer expenditures from nondurable to durable goods lines.

Summing up thus far, the net effect by the end of 1950 should be upward. To this must be added a coordinate increase in consumption, which will gain continued support from the increase in population. Consider, also, the temporary factors, like veterans' refunds and making up deficiencies of the strikes, whose stimulating effects will soon disappear. In view of the upward movement anticipated on other grounds, these factors may act primarily to bring activity up more quickly, with a leveling thereafter, rather than any definite decline. In other words, we seem now to be moving toward a higher plateau which should continue into the first half of 1951.

Other Factors Affecting Profits

Productivity. The economic problem of 1950 seems likely to be the creeping increase in unemployment. Lack of jobs for 4.5 million workers is just too much to ignore, especially as the prospective expansion of activity is not sufficient to keep up with the growth in the labor force.

Manufacturing employment moved down steadily in 1949, releasing more than a million workers. Only part of the decline can be explained by reduced rates of production, as man-hours were cut about twice as fast as output. The number of production workers in manufacturing was down almost 10 percent from December, 1948, to December, 1949, and there was in addition a slight decline in average hours of work per week. In contrast, the Federal Reserve index of manufacturing production declined only 5½ percent.

As a result of these changes, there was an increase in production per man-hour of about 5 percent. This increase in productivity was the result of a concerted campaign by management to cut expenses and put operations on the most efficient basis possible. Results were much the same in durable and nondurable goods industries. In the former, there was a moderate decline in output and a larger decline in man-hours of employment; in the latter, higher production was obtained with a smaller working force. Continuation of this trend of productivity through 1950 will tend to increase profits in industries where sales and prices are firm, and to maintain them where declines are experienced.

Prices. Profits were helped to some extent in 1949 by more rapid declines in prices of materials than in those of finished products. Prices of farm products fell more than 10 percent during 1949, and some further declines are expected. Prices of other raw materials and semi-manufactured articles also showed considerable declines, though not as large. However, recent firming tendencies in these prices suggest that any further weakening in the price structure is likely to be limited.

The stability of prices other than farm products and foods during the last six months reveals no tendency to reduce prices at the expense of margins. Little inclination to lower margins was displayed by business, even in the scare of the 1949 recession; and more recently, there has been some tendency to improve margins by raising prices — exemplified by the increases in steel and tire prices at the end of the year. On the other hand, some declines may occur in particular commodities, like automobiles, which are affected by special situations.

(Continued on page 6)

SOYBEAN PROCESSING

Soybeans were extensively cultivated as a food crop in the Orient as far back as written records extend, but only in the past 20 years have they become a major crop in the United States. The wartime shortage of fats and oils brought a tremendous expansion of soybean acreage, and today this nation leads the world with a 1949 crop of 222 million bushels, more than three-fourths of which were grown in the North Central region.

Illinois produces more soybeans than any other state; its record crop of 82.6 million bushels in 1949 was over one-third of the national total. It is not surprising, therefore, that Illinois, with 30 soybean mills, is the center of the soybean processing industry. The State was responsible for 46 percent of the industry's \$585 million value of product shown in the 1947 Census of Manufactures, and had double the product value of Iowa, its nearest competitor.

Processing in Illinois

Central Illinois is ideally located with respect to soybean-producing areas and markets. Decatur, often called the soybean capital of the world, is the site of four large processing plants and has the largest concentration of soybean-processing facilities in the nation.

The first commercial soybean processing in this country was done at Chicago Heights during the first World War, in an effort to meet a serious shortage of fats and oils. An early leader in the industry was the A. E. Staley Company of Decatur, the oldest continuous soybean processor in business today. Other large concerns soon entered the field, and Illinois processors now include such firms as Swift, Allied Mills, Archer-Daniels-Midland, Central Soya, Glidden, Ralston Purina, Spencer Kellogg, and Borden.

Methods of Processing

The mechanical method of recovering oil from oil-bearing seeds by applying continuous pressure is centuries old. Modern soybean processing first used hydraulic presses, then screw presses called expellers. Working like enormous meat grinders, expellers crush the beans, forcing out the oil and leaving a cake residue which is ground into meal containing about 5 percent oil.

Experimentation with solvent extraction began about 1926, but permanent solvent-type oil mills did not appear in America until 1934. Today more than half of the industry's processing capacity is in solvent extraction, whose main advantage is its ability to remove up to 96 percent of the oil in the beans, in contrast to the 80 percent removed by expellers. Hexane, the most commonly used solvent, has the disadvantage of being extremely explosive and requires highly skilled operators and elaborate safety precautions. An additional drawback of the solvent process is its higher initial cost, but the added revenue from higher oil yields more than justifies expensive installation and operation.

Most of the solvent-type capacity in operation uses a

continuous basket type of extraction. The beans are rolled into thin flakes and loaded into a series of perforated baskets which run on an endless chain in a vapor-tight tower. The flakes are carried down one side of the tower and up the other through a spray of solvent which is then drained off and distilled for recycling. Evaporators and steam remove all traces of the solvent both from the oil and from the residual flakes, which are then ground into meal having an average oil content of less than 1 percent.

The Market for Oil and Meal

Almost 90 percent of the total production of soybean oil goes into edible products such as salad and cooking oil, mayonnaise, vegetable shortening, and margarine. Substantial amounts of the remaining 10 percent are being used in the manufacture of paint and varnish, linoleum, printing ink, soap, and insecticides.

Originally, soybean oil was considered the main product of the industry and had a higher cash value than the meal, but today the value of the meal recovered from each bushel of beans exceeds the value of the oil. Most of the more than 4 million tons of soybean oil meal produced during the 1948-1949 season went into animal feeds. Soybean meal contributes over 40 percent of the protein supplements used in poultry and livestock feeding, a market which has a vast potential in a prosperous economy.

Another outlet for soybean oil meal that has a bright future is soy flour. Two pounds of medium fat soy flour contains the same amount of protein as 5 pounds of round steak or 6 dozen eggs. Strictly a protein fortifying agent, it is not a flour in the true sense of the word and is best used in small quantities to add nutritive value to basic foods.

The biggest industrial use of soybean meal is in adhesives. The protein in the meal has been used for a number of years for sizing and coating paper, and soybean glue is now the standard adhesive for pine and fir plywood. Soybean meal has been used in very small quantities in plastics as an extender.

The ever-increasing number of practical applications for soybean products is the result of extensive research carried on both by the processors and by university and government laboratories. Some outstanding work in the field has been done at the Northern Regional Research Laboratory at Peoria, one of four Federal laboratories set up to develop new uses for the nation's farm crops.

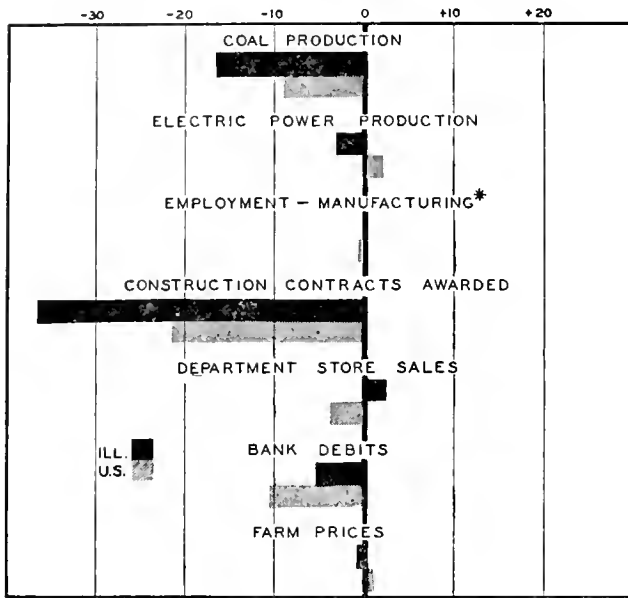
Among the soybean products discovered there are Norepol, a rubber substitute made from soybean oil; Norelac, a synthetic resin used as a heat-sealing agent for food packaging; and Gelsoy, a water extract of the flakes remaining after hexane extraction, which whips like egg whites and gelatinizes when heated, properties which combined with its high protein content make it an ideal food filler and enriching agent. Other discoveries include a soybean glue for shotgun shell casings and improved durability of 100 percent soybean oil paint.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage Changes December, 1949, to January, 1950



* Figure for Illinois not available.

ILLINOIS BUSINESS INDEXES

Items	January 1950 (1935-39 = 100)	Percentage Change from	
		Dec. 1949	Jan. 1949
Electric power ¹	282.6	- 3.0	+ 1.5
Coal production ²	81.2	-16.3	-46.9
Employment—manufacturing ³ ...	n.a.	.....	.....
Payrolls—manufacturing ³	n.a.	.....	.....
Dept. store sales in Chicago ⁴	236.0 ^a	+ 2.6	- 4.1
Consumer prices in Chicago ⁵	172.3	- 0.5	- 1.5
Construction contracts awarded ⁶	197.3	-36.8	+ 1.4
Bank debits ⁷	286.2	- 5.4	- 1.6
Farm prices ⁸	203.7	- 0.9	-13.4
Life insurance sales (ordinary) ⁹ ..	163.0	-15.9	- 6.9
Petroleum production ¹⁰	245.9	+ 1.1	+ 7.3

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Coop. Crop Repts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.
^a Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	January 1950	Percentage Change from	
		Dec. 1949	Jan. 1949
Personal income ¹	n.a.	.....	.....
Manufacturing ¹			
Sales.....	211.2 ^a	+ 4.8	- 1.7
Inventories.....	31.0 ^{a, b}	+ 0.3	- 9.9
New construction activity ¹			
Private residential.....	7.8	- 5.8	+36.8
Private nonresidential.....	5.9	- 8.6	- 7.2
Public nonresidential.....	4.0	- 8.8	+17.7
Foreign trade ¹			
Merchandise exports.....	8.9	-21.1	-32.6
Merchandise imports.....	7.5	+ 3.0	+ 5.6
Excess of exports.....	1.4	-64.2	-76.5
Consumer credit outstanding ²			
Total credit.....	18.3 ^b	- 2.4	+16.4
Installment credit.....	10.8 ^b	- 0.6	+28.6
Business loans ²	13.9 ^b	- 0.2	- 9.4
Cash farm income ³	25.2	- 9.4	-11.3
Industrial production ²			
Combined index.....	183 ^a	+ 1.7	- 4.2
Durable manufactures.....	210 ^a	+ 2.9	- 7.5
Nondurable manufactures.....	179 ^a	+ 2.3	+ 2.3
Minerals.....	131 ^a	- 0.8	-12.7
Manufacturing employment ⁴			
Production workers.....	146 ^a	+ 0.7	- 6.3
Factory worker earnings ⁴			
Average hours worked.....	106	- 0.5	+ 0.8
Average hourly earnings.....	237	+ 0.6	+ 0.9
Average weekly earnings.....	252	+ 0.1	+ 1.2
Construction contracts awarded ⁵	309	-21.3	+51.3
Department store sales ²	282 ^a	- 3.8	- 4.4
Consumers' price index ⁴	167	- 0.4	- 2.3
Wholesale prices ⁴			
All commodities.....	188	+ 0.2	- 5.6
Farm products.....	204	0.0	-10.0
Foods.....	196	- 0.6	- 6.7
Other.....	180	+ 0.3	- 4.6
Farm prices ³			
Received by farmers.....	220	+ 0.9	-11.3
Paid by farmers.....	190	+ 0.4	- 3.3
Parity ratio.....	94 ^c	- 1.1	- 9.6

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b As of end of month. ^c Based on official indexes, 1909-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1950					1949
	Feb. 25	Feb. 18	Feb. 11	Feb. 4	Jan. 28	Feb. 26
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	437	404	432	1,090	1,250	1,812
Electric power by utilities.....mil. of kw-hr.....	5,854	5,931	5,971	6,062	5,972	5,559
Motor vehicles (Wards).....number in thous.....	117.5	116.1	118.3	120.1	133.5	114.1
Petroleum (daily avg.).....thous. bbl.....	4,930	4,931	4,887	4,883	4,893	5,344
Steel.....1935-39 = 100.....	189.6	193.7	195.4	198.8	200.5	207.1
Freight carloadings.....thous. of cars.....	547	560	569	613	636	688
Department store sales.....1935-39 = 100.....	220	232	238	226	222	232
Commodity prices, wholesale:						
All commodities.....1926 = 100.....	152.5	152.2	151.6	151.2	150.7	158.5
Other than farm products and foods.....	145.3	145.3	145.1	145.2	145.1	151.0
28 commodities.....August, 1939 = 100.....	248.7	248.0	247.1	247.7	249.4	272.5
Finance:						
Business loans.....mil. of dol.....	13,854	13,905	13,885	13,918	13,871	15,222
Failures, commercial.....number.....	210	218	195	199	232	180

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Retail Trade Remains High

For the most part, department store sales held up during February, varying only 1 or 2 percent from the corresponding weeks of 1949, until the week ending February 25, when sales were off 5 percent from last year. Adverse weather and curtailed industrial activity were the main causes cited for the late-February drop. For the month as a whole, dollar sales were only 1 percent below February, 1949.

Despite earlier pessimism, total retail sales in January reached \$9.5 billion, 2 percent over January, 1949. After seasonal adjustment, sales were also higher than in December, with the total up 3.5 percent. Increases in both cases were caused entirely by strength in durables, up 17.8 percent from January, 1949, and 13.2 percent from December, largely because of increased sales of automobiles. Nondurable goods sales, although more than 3 percent below January, 1949, were only slightly below sales in December.

The accompanying chart shows that total retail sales throughout 1949 remained fairly close to 1948's high levels and in January exceeded the previous three years. Durable goods sales in 1949 remained higher than 1948 until December, and moved up again in January. Nondurables, down throughout last year, continue to lag.

Manufacturers' Sales Rise

In contrast to the fairly general weakness of nondurable goods at the retail level, these lines were making a good showing at the manufacturing level; manufacturers' sales of nondurables valued at \$10.2 billion in January represented a 2 percent gain over the previous month, after seasonal adjustment. Renewed sales of automobiles boosted durable sales to \$7.4 billion, nearly 6

percent over December after adjustment. Total sales of \$17.5 billion were up 4 percent. Manufacturers' inventories showed no change in either category, remaining at \$13.8 billion for durables and \$17.0 billion for nondurables.

An encouraging fact for the nation's businessmen after last year's ups and downs was the increase in new orders. Both durable and nondurable goods shared in the substantial increase over December. New orders also exceeded sales in January, with an increase in machinery orders especially noted by the Department of Commerce.

National Product Off in 1949

With fourth quarter data now available, it is possible to review 1949's economic conditions. The chief factor in last year's declining gross national product was the shift in inventory buying. (See article, page 8.) Consumption expenditures and government purchases helped sustain the nation's economy, both exceeding the 1948 levels. State and local governments increased their buying \$2.2 billion in 1949, whereas the Federal government raised its expenditures by \$4.5 billion. In personal consumption, larger purchases of durable goods and services more than offset the decline in nondurable goods buying.

In contrast to a 2 percent decline in national income and a 1 percent decline in personal income in 1949, disposable personal income rose slightly over 1948. Department of Commerce data for 1948, 1949, and the fourth quarter of 1949 are given below.

GROSS NATIONAL PRODUCT OR EXPENDITURES (billions of dollars)

	1948	1949	4th Qtr. 1949*
Gross national product.....	262.4	257.4	255.2
Personal consumption.....	178.8	179.4	179.8
Durable goods.....	23.5	24.4	25.2
Nondurable goods.....	102.2	98.9	97.7
Services.....	53.1	56.1	56.9
Domestic investment.....	45.0	34.7	33.7
New construction.....	17.9	17.3	18.7
Producers' durable equipment	20.7	19.7	18.7
Change in business inventories	6.5	-2.3	-3.7
Nonfarm inventories only..	5.1	-1.8	-2.8
Foreign investment.....	1.9	.0	-2.0
Government purchases.....	36.7	43.4	43.7

INCOME AND SAVINGS

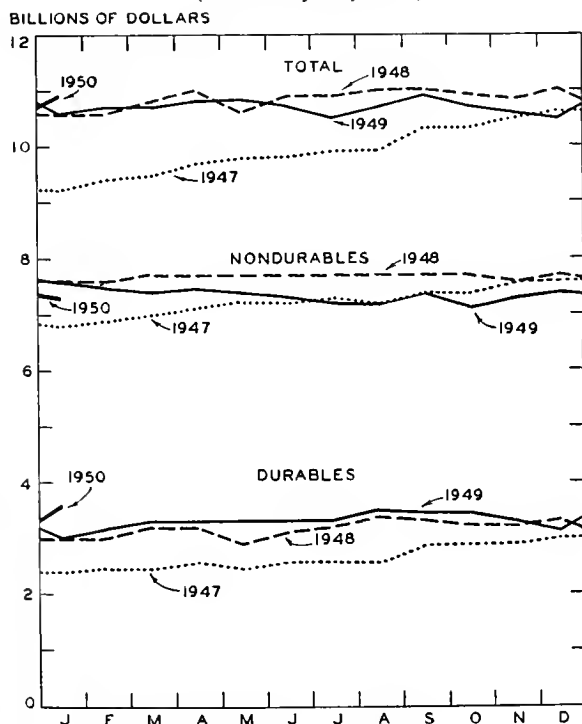
National income.....	226.2	221.5	219.8
Personal income.....	211.9	209.8	209.3
Disposable personal income.....	190.8	191.2	190.7
Personal saving.....	12.0	11.8	10.8

* Seasonally adjusted, at annual rates.

Coal Strike Settled

The acrimonious months-long dispute between the United Mine Workers and the nation's mine operators was finally settled on March 5 with the signing of a contract running to mid-1952. Negotiations concerning wages may be reopened, however, after April 1, 1951, on 30 days' notice. Miners received a 70-cent increase in their basic wage to \$14.75 a day. A 30-cent a ton royalty will be paid into the pension fund, a 10-cent increase over the royalty previously paid. It is estimated that this rise in payments to the pension fund amounts to an additional 65 or 70 cents a day. The "willing and able" clause which has caused considerable difficulty was eliminated; and memorial work stoppages were limited to five days a year.

RETAIL SALES (seasonally adjusted)



Source: U. S. Department of Commerce.

Despite the uneasy strike situation, the number of workers holding jobs, including the strikers, remained about level in February. Of the 210,000 workers entering the labor force, more than 200,000 were unable to find jobs; a small number found work in agriculture. Non-agricultural employment, down 19,000 from January, was 556,000 higher than in February, 1949. Data for the month, in thousands of workers, are as follows:

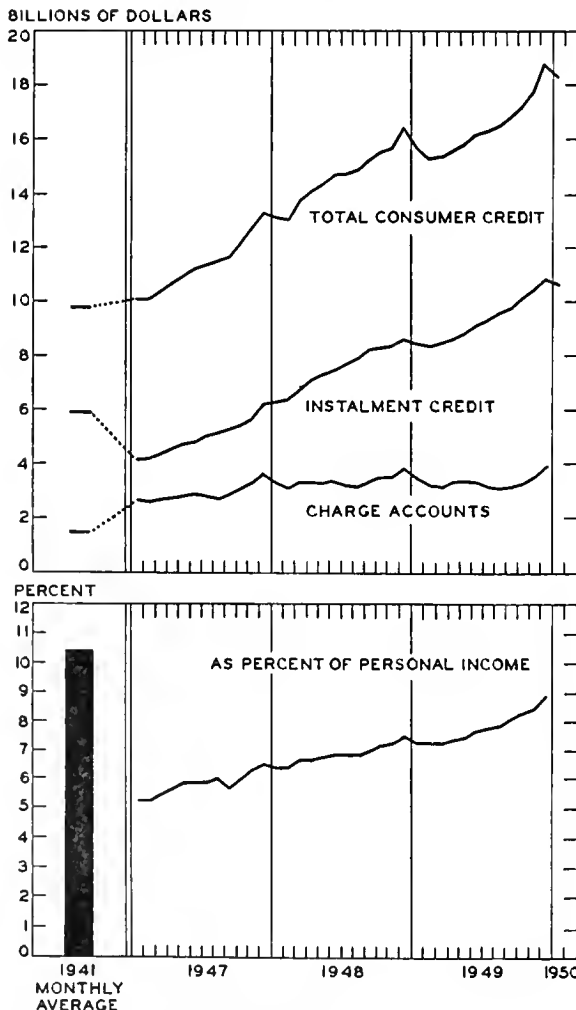
	February 1950	January 1950	February 1949
Civilian labor force.....	61,637	61,427	60,388
Employment.....	56,953	56,947	57,168
Agricultural.....	6,223	6,198	6,993
Nonagricultural.....	50,730	50,749	50,174
Unemployment.....	4,684	4,480	3,221

Consumer Credit Off Seasonally

In accordance with its usual seasonal pattern, consumer credit was off in January to a total of \$18,335 million, \$442 million below the December 31 record. Even then, total consumer credit outstanding was more than \$2.5 billion higher than that on January 31, 1949. The substantial upward trend which has marked consumer credit in the postwar years is illustrated in the accompanying chart. Instalment credit is seen to have been an important element in the rise, since credit outstanding in charge accounts has shown only a slight upward trend.

Although much has been heard of the excessive levels

CONSUMER CREDIT



Source: Federal Reserve Board.

of consumer credit in recent months, the chart shows that consumer credit as a percentage of personal income is still substantially below the figure for 1941. The steady rise in the last three years has brought the percentage to 8.9 percent of personal income, whereas the monthly average in 1941, a fairly prosperous prewar year, was 10.4 percent.

Construction Stays Up

An unseasonably high rate of construction activity has prevailed throughout the winter. In February, the value of new construction put in place totaled more than \$1.4 billion, down 5 percent from January, but more than 20 percent above the February, 1949, total. The four months, November through February, have been marked by the highest construction volume on record, in terms of both physical volume and dollars spent. The unusually high level of private home building has been an important factor in the record activity. A total of \$600 million was spent on private residential building during February, half again as much as in February, 1949, and only 8 percent below January. All private construction was valued at nearly \$1.1 billion, up 19 percent from February, 1949, down a little more than 5 percent from January. Public construction, totaling \$336 million, was down 6 percent from the previous month but still more than 25 percent over February last year.

Outlook for Profits in 1950

(Continued from page 2)

Since margins are generally satisfactory at the present time, and both capacity and labor supply are adequate to fill orders, any further price changes seem likely to be moderate, leaving the general price level relatively stable.

Inventories. Price movements were responsible for the wide fluctuations of reported profits during the last two years. Changes in both sales receipts and inventory revaluation adjustments were largely the result of the price reversal. (See article, page 8.)

If the decline in prices at which inventories are valued comes to an end, reported profits before income taxes would automatically move up \$2.6 billion (the amount of the downward adjustment in 1949), or almost 10 percent. In addition, rising volume and productivity, which, as indicated above, seem reasonably in prospect, should also tend to increase profits. Hence, reported net profit may, on a rough estimate, be something like 15 percent higher in 1950 than in 1949.

The combination of continued prosperity, stable prices, and rising profits provides the most favorable outlook for business. Although synthetic pessimism concerning the last half of 1950 has been given wide circulation, and should make for continued business caution, the situation will be such as to give business the confidence to move forward.

This outlook also provides the most favorable climate for the security markets. Stock prices still have a long way to rise before normal relations with earnings and bond yields are re-established; and the action of the market during the last six months suggests that the postwar freeze on speculative psychology is ending. There now seems nothing but the possibility of increased international tension to block the advance.

In summary, our view of the situation is: Prosperity will prevail for another year at least. The outlook for profits is good; and trends toward establishing a more normal relation between security prices and earning power should continue.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

California Unemployment Conference

The results of the California Conference on Unemployment held in Sacramento in December are detailed in a booklet titled *Governor's Conference on Unemployment*, published by the California Department of Employment. Governor Earl Warren favors the town meeting method of dealing with state-wide problems, and the experiment should be of interest to other state administrations. The delegates were divided into groups discussing such problems as the employment of minority groups, the physically handicapped, and workers over 40; opportunities for expansion in agriculture, construction, transportation and communication, and trade; and community action and assistance to private industry on the local and the state level. The booklet contains a section of basic information on the employment picture in California, where the population is growing at a rate of almost 400,000 people a year, and 10,000 more jobs must be created every month.

Advertising

"Retail Radio-TV," an article in the February 27th issue of *Broadcasting*, reports that although spending for newspaper advertising and retail store displays will decrease slightly this year, amounts spent on radio and television advertising will probably continue to increase as they have for two decades. More money is spent locally than nationally for radio advertising, and increasing use of radio by retailers is largely due to its "person-to-person" appeal. Television has also proved itself a potent merchandising medium and stores are beginning to stress promotional type rather than institutional television advertising.

Printer's Ink recently published a series of three articles, entitled "So You're Going to Choose an Advertising Agency," by James T. Chirurg. The articles, which started in the February 24th issue of the magazine, stress the point that the choice of an agency should not be haphazard. The decision should be made in a planned and systematic manner and it is suggested that tests, check lists, and questionnaires be sent to various agencies in order to determine what services they have available, their size, what are their active accounts, and how they could meet the advertiser's specific requirements.

Turbo-hearth Steel

The February 4 issue of *Business Week* describes a new process developed by the United States Steel Corporation which makes high-grade steel in 12 minutes, using no fuel. Molten pig iron from the furnace is poured into a turbo-hearth shaped like a giant steel coffee-maker, and blasts of air are shot in over the surface of the molten iron, causing the carbon and other impurities to burn out, leaving steel. A 30-ton turbo-hearth can make at least 60 tons of steel an hour and could double or triple the daily production of a 150-225 ton open-hearth, yielding a steel whose quality is equal to that of the open-hearth product.

Federal Reserve System

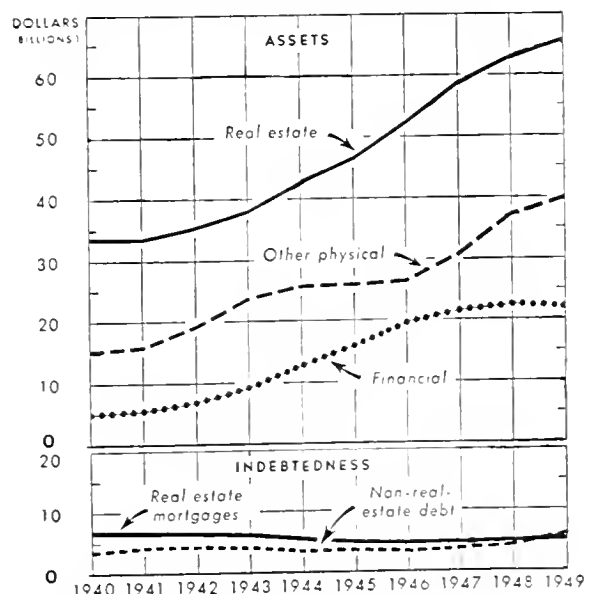
The Book of the Bank, published by the Federal Reserve Bank of Chicago, briefly describes the history and functions of the Federal Reserve System and the internal operations of the Federal Reserve Bank of Chicago, the second largest bank in the system. With its Detroit branch, the Chicago Reserve Bank serves the most populous area in the Federal Reserve System, the Seventh District. This booklet describes the handling of cash, checks, discounts, credit, and government bonds, explaining how the bank fulfills its purpose of regulating the supply, availability, and cost of money.

Agricultural Balance Sheet

The Bureau of Agricultural Economics of the United States Department of Agriculture has published *Balance Sheet and Current Financial Trends of Agriculture, 1949*. Viewing the farm industry as one large enterprise, the study reports that on January 1, 1949, total farm assets were 5 percent above those of a year earlier and 2½ times the 1940 figure. Increases have come both directly and indirectly from record increases in farm income, which reached an all-time high of \$22 billion in 1948 and decreased during 1949, chiefly because of reduced prices.

As shown by the chart, physical assets were valued at about \$105 billion in 1949, a rise of about 6 percent, while the total financial assets of almost \$22 billion were almost unchanged from a year earlier. Although farm indebtedness increased 23 percent during 1948 to more than \$11 billion, the chart shows clearly that farm debts are relatively small and that there has been no sharp upturn in indebtedness since 1940, in contrast to the upward trend of assets.

ASSETS AND INDEBTEDNESS OF
U. S. AGRICULTURE, JAN. 1, 1940-49



Source: Bureau of Agricultural Economics.

CORPORATE FINANCES IN 1949

ROBERT W. WOLFF, Research Assistant

The financial position of corporations improved during 1949 despite declines in sales and profits. Net working capital increased, with cash and government security holdings rising almost \$3 billion. Since purchases for final use—by government and business as well as consumers—held steady in 1949, the decline in sales was due almost entirely to inventory reductions.

Profits were adversely affected by the reversal of price trends which turned a fictitious inventory revaluation profit in 1948 into a still larger fictitious loss in 1949. Taxes are ordinarily paid on such profits, however, so that corporations obtained a real cash saving in 1949. Adjusting stated profits after taxes to eliminate inventory revaluation indicates an increase in cash available from operations; and this helped provide the basis for larger dividend payments, which continued on a rising trend throughout the year.

Sales and Production Decline

Manufacturers' sales—which account for over 50 percent of the corporate total—declined in 1949. At \$213 billion they were 6 percent below the 1948 peak. Lower prices accounted for a large part of the drop, but there was some reduction in physical volume as well.

Since purchases by final users maintained their high level throughout 1949, the decline in sales was almost entirely a reflection of reduced purchases for inventory by distributors and processors. This is borne out by the changes that took place in the components of gross national product, as published by the Department of Commerce in the February *Survey of Current Business*.

Personal consumption expenditures showed a slight rise in dollar volume for the year. The total for all government purchases increased sharply in 1949 and more than offset moderate declines in net foreign investment and in private domestic investment in new construction and producers' durable equipment. (See page 5.)

In contrast to this high level maintained by final purchases, there was a pronounced swing from accumulation of inventories in 1948 to liquidation in 1949. Whereas \$5.1 billion was devoted to net additions to nonfarm inventories in the previous year, in 1949 there was a net reduction of \$1.8 billion. The decline in corporate sales can be attributed to this sudden reversal in buying for inventory account.

Lower book values of inventories were noticeable at the trade level as early as November, 1948. The trend continued into 1949, with lower prices accounting for nearly all of this early decline. The book value of manufacturers' stocks continued up to a peak until the middle of the first quarter. Manufacturers, in turn, had no alternative to reducing their inventories in line with the volume of sales, and in the first instance reductions could be made only by cutting purchases of materials. Even after purchases of materials had been checked, however, finished goods continued to accumulate.

For manufacturers, the process of inventory liquidation did not become fully effective until the third quarter, after reordering at the trade level had made some recovery. Holdings continued to decline in the early part of the fourth quarter but at a lower rate; and the month of December marked the upturn. Trade inventories in the last quarter fell again, but the drop could be explained in most part by reductions in the stocks of automobile dealers.

The earlier stages in the production process were hardest hit by the liquidation. The copper industry provides a good illustration. Refined copper deliveries in March totaled 133,000 tons. Within two months they had dwindled to 33,000, a decline of 75 percent. On the other hand, producers' stocks continued to grow from the end of the first quarter until the end of August. In the five-month period they had risen from 68,000 to 217,000 tons. Not until September were production and deliveries finally brought into a relationship that allowed stocks to start downward.

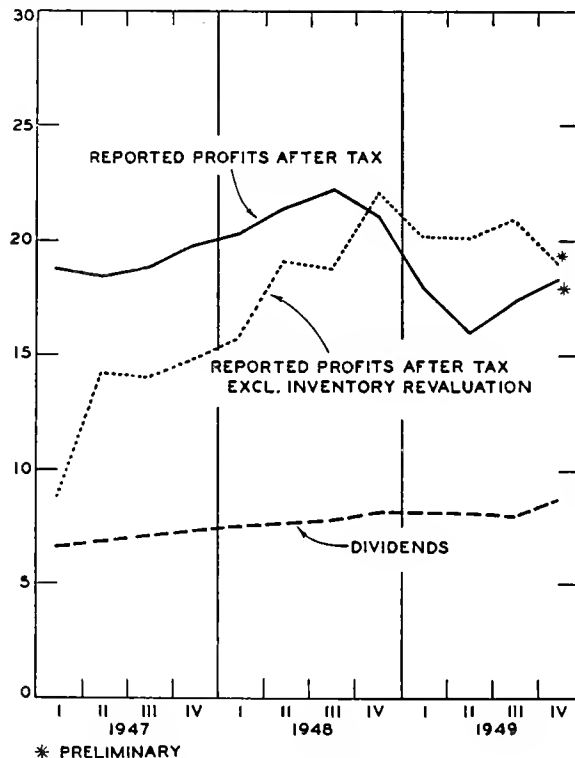
Primary rayon manufacturers faced a similar situation. Their shipments declined more than 40 percent from the first of 1949 until April. Production was fairly well maintained during this period, so that their stocks of rayon mounted, reaching a peak in May more than four times as high as at the end of 1948. In June, however, after the decline in shipments was sharply reversed, inventories again began to fall.

Effects on Corporate Profits

Although the declines in sales were primarily confined to the business community, they inevitably affected prices and profits. Complete profits data for 1949 are not yet available, but the trend is illustrated by preliminary annual estimates of the Department of Commerce, which it describes as "sufficiently accurate for general purposes."

Corporate profits before taxes, as reported for income tax purposes, are estimated to have fallen \$6 billion in 1949 from the peak of \$34.8 billion in 1948. Tax reduc-

Chart 1. CORPORATE PROFITS AND DIVIDENDS
(seasonally adjusted quarterly totals at annual rates)
BILLIONS OF DOLLARS



Source: U. S. Department of Commerce.

tions of more than \$2 billion cushioned the decline, but the \$3.9 billion decline in profits after taxes represented a reduction of almost 20 percent from the 1948 total. These profit figures are shown quarterly, at seasonally-adjusted annual rates, by the solid line in Chart 1. The fourth quarter figure, calculated arbitrarily by the Department of Commerce for purposes of obtaining an annual total, indicates a moderate increase, which may be understated in view of the recovery late in the year.

A large part of the drop can be attributed to the practice of valuing inventories at cost or market, whichever is lower. In 1949, when the course of prices was downward, the decline in inventory values was added to cost in computing profits, whereas in the preceding year the increase in values raised the profit level. Since the revaluation part of the inventory changes does not involve actual cash outlays or receipts, these changes in profits may be regarded as artificial.

When an adjustment is made to take this fact into account, the decline in earnings from 1948 is considerably modified. Thus, when the \$2.2 billion revaluation is subtracted from 1948 earnings and the \$2.6 billion deduction is added to those in 1949, corporate earnings excluding the inventory revaluation actually showed an increase over 1948. The adjusted figures, which more nearly represent actual changes in cash available from operations for capital use or dividend distribution, are shown by the dotted line in Chart 1. This partly explains the policy of increasing dividends at a time when total reported profits showed a substantial decline.

Financial Position Improved

Even though sales and profits declined in 1949, and dividend payments reached an all-time high, the financial position of corporations improved.

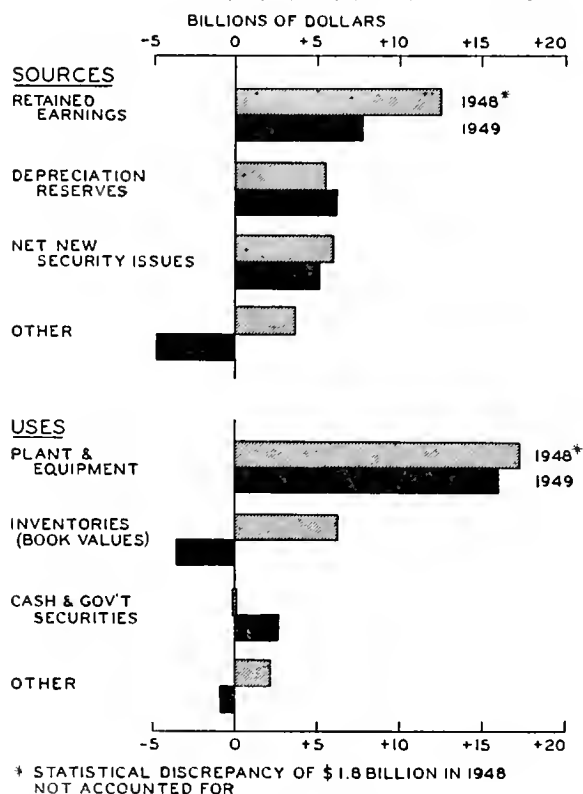
This seemingly inconsistent statement can be clarified by observing the changes that occurred in the sources and uses of corporate funds as shown in Chart 2. (These are data for nonfinancial corporations only and therefore differ somewhat from those previously cited.) Total requirements fell sharply from \$26 billion in 1948 to \$14 billion in 1949.

Plant and equipment expenditures, which had been increasing each year since the end of the war, declined \$1.3 billion to \$16 billion. To finance these large outlays, corporations found it even less necessary than in 1948 to draw upon the capital markets. Net sales of new securities provided \$0.9 billion less than in 1948; long-term bank loans (excluding mortgage loans), which had risen \$0.6 billion in 1948, were reduced \$0.4 billion in 1949; and \$0.2 billion less was obtained from mortgage loans. The combined drawings upon these sources were reduced by \$2.1 billion, or half again as much as the reduction in plant and equipment outlays.

Earlier postwar capital requirements of corporations were met in part by liquidation of government securities, which had been accumulated during the restriction on private capital investment. In 1946 these securities were drawn on to the extent of \$5.8 billion, whereas additions to cash amounted to only \$1.1 billion. During the next two years, total holdings of these "liquid assets" changed relatively little; but in 1949, while sales and prices were sliding off, such assets increased almost \$3 billion.

At the same time, there was continued extension of credit to customers, mainly consumers. Receivables from consumers rose \$900 million, a half billion less than the \$1.4 billion used for the same purpose in 1948. Receivables from business, although they showed a decline of \$1.6 bil-

Chart 2.
SOURCES AND USES OF CORPORATE FUNDS



Source: U. S. Department of Commerce.

lion, were counterbalanced by an equal decline in payables.

Retained profits and depreciation allowances continued to be the primary sources of funds for corporate requirements in 1949. Together they totaled \$14 billion; and although they declined \$4 billion from 1948, these sources were more significant percentagewise since overall requirements were substantially reduced.

It may seem that this is piling anomaly on anomaly, but the explanation is readily found in the inventory account. Requirements for financing inventories were so sharply reduced as to affect almost all other accounts. Inventory requirements decreased \$3.7 billion in 1949, after increasing \$6.3 billion in 1948, a total swing of \$10 billion. Repayment of \$1.4 billion of short-term bank loans was related to this shift, as such loans are in part used to carry inventories.

The net effect of these changes in the sources and uses of funds was to ease corporate financial positions. As already pointed out, adjusting to eliminate inventory revaluation indicates an actual increase in cash available from operations. Stockholders, therefore, were paid a half billion dollars more in dividends than in 1948, when payments reached a peak \$7.9 billion.

Another indication of current strength in the corporate financial position is that the ratio of interest payments to corporate profits (before taxes and interest payments) was only 8 percent in 1949. This ratio was 20 percent in 1940 and 30 percent in 1929.

Net sales of new securities (new issues less retirements) totaled \$5.1 billion in 1949. In reaching this total, sales of equity securities experienced a slight rise but bond sales were a billion dollars lower. The rising trend in stock prices suggests that there will be a still greater shift from bonds to stocks in future financing.

LOCAL ILLINOIS DEVELOPMENTS

During January, Illinois business activity was at a lower level than during the preceding month or in January, 1949. Manufacturing employment showed little change, though unemployment rose seasonally. Petroleum production, an exception, increased. Electric power production, down slightly from December, equalled last January's volume. Postal receipts declined seasonally but were 2 percent above last January.

Labor

Manufacturing employment in the State remained about level during January, though a few firms in Danville, Elgin, and Springfield reported cutbacks in anticipation of the effects of a prolonged coal strike. Manufacturing employment rose in Rockford as a result of increased activity in the fabricated metal products and nonelectrical machinery industries. Employment also increased in Aurora, as paper, lumber, and fabricating metal products plants added workers; and the Kankakee area reported a significant increase, as steel supplies improved and the fabricated metals industry called back workers.

Total unemployment in the State increased, however, partly as a result of the seasonal slump in construction and retail trade, and partly because of an increase in the number of new entrants (primarily youths) into the labor market.

Construction

The value of construction contracts awarded in the State during January for all types of building was appreciably less than in December though slightly above contract awards in January, 1949. Contracts for public works, utilities, and nonresidential building lagged behind last January, but residential building contract awards more than doubled.

Outlays for plant expansion in the Chicago area con-

tinued at a high level during February. Investment in industrial facilities announced during the month totaled \$31 million, raising investments in the area for the first two months of 1950 to approximately \$53 million. According to the Chicago Association of Commerce and Industry, the amount reported for February represents plans of 25 companies and is the largest monthly figure reported since April, 1947.

The Carnegie-Illinois Steel Company plans to increase its Chicago district production of cold-reduced sheets 200,000 tons a year by modernizing and expanding its Gary Sheet Mill and Steel Works. Bethlehem Steel Corporation is expanding its plant in the Clearing Industrial District. Peter Paul, Inc., candy manufacturer, has acquired a 14-acre site in La Grange Park, on which a 200,000 sq. ft. plant is to be constructed. Powers Regulator Company, manufacturer of temperature-controlling apparatus, heating specialties, and shower mixers, will construct a one-story plant of 150,000 sq. ft. in Skokie.

The Illinois Bell Telephone Company recently announced its plans to spend \$69 million for capital improvements in the State in 1950.

Granite City has been allocated a new post office; estimated cost of the site and building is \$350,000.

A total of \$650,000 in Federal funds has been allocated to Illinois for airport construction. Of that amount, \$500,000 is to be used for improvements at the Chicago airport; \$75,000 was allotted to the Rockford airport; \$55,000 was allotted to the Marion-Herrin airport; and the Charleston-Mattoon airfield was given \$20,000.

Retail Sales

Sales in department stores throughout the State declined seasonally in January and were below the level of last January. Aurora, Danville, Decatur, Elgin, and Kankakee were the only cities to report higher department store sales than in last January.

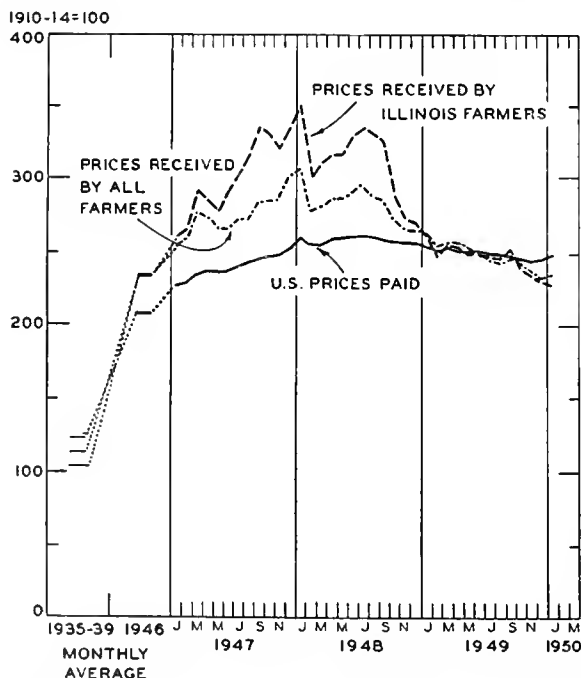
Although department store sales in Chicago were under last January, total retail sales in the city were 3 percent above January, 1949. The increase was due to the continued high level of sales by automotive dealers and furniture and household appliance stores. General merchandise, apparel, jewelry, lumber, building and hardware, liquor, and food stores reported sales lagging below last year. Total retail sales in East St. Louis, the only other city for which data are available, were 22 percent above last January.

Farm Prices

For the fourth successive month, the index of prices received by Illinois farmers declined. The January 15 index was 227 percent of the 1910-14 average, down two points from December 15. The all-farm-crop index held steady during the 30-day period, but the livestock and product prices index declined three points. The greatest drop was in egg prices, down 26 percent since mid-December.

From July, 1946, to January, 1949, the index of Illinois farm prices was above that of the average for the nation, as shown by the chart. However, since January 1949, Illinois farm prices generally have been below the national average. During this period, prices received by farmers lost their margin over the indexes of prices paid by farmers (including interest, taxes, and wages) and last November fell below the latter for the first time in the postwar period.

PRICES RECEIVED AND PAID BY FARMERS



Sources: U. S. and Illinois Departments of Agriculture.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES
JANUARY, 1950

	Manufacturing ¹ Employment & Payrolls (Indexes 1935-39 = 100)	Building Permits ¹ (000)	Department Store Sales ²	Bank Debits ² (000,000)	Postal Receipts ³ (000)
ILLINOIS				\$8,924 ^a	\$9,888 ^a
Percentage Change from... {Dec., 1949....			-52.1	-5.4	-33.5
{Jan., 1949....			-3.6	-1.6	+2.0
NORTHERN ILLINOIS					
Chicago				\$8,164	\$8,542
Percentage Change from... {Dec., 1949....			-51.3	-5.2	-33.3
{Jan., 1949....			-4.1	-1.4	+0.7
Aurora				\$ 33	\$ 68
Percentage Change from... {Dec., 1949....			-54.2	-8.7	-39.3
{Jan., 1949....			+3.8	-3.6	+4.0
Elgin				\$ 23	\$ 59
Percentage Change from... {Dec., 1949....			-56.1	-8.2	-42.5
{Jan., 1949....			+5.4	+1.7	+8.7
Joliet				\$ 36	\$ 62
Percentage Change from... {Dec., 1949....			-59.0	-15.0	-49.2
{Jan., 1949....			-10.7	-6.0	-8.6
Kankakee				n.a.	\$ 27
Percentage Change from... {Dec., 1949....			-39.7		-41.8
{Jan., 1949....			+1.0		+0.6
Rock Island-Moline				\$ 27 ^b	\$ 126
Percentage Change from... {Dec., 1949....			n.a.	-5.8	-33.7
{Jan., 1949....				+1.9	+14.3
Rockford				\$ 88	\$ 168
Percentage Change from... {Dec., 1949....	(Owing to changes instituted by the original compiling agencies, these data are not available for January)		-59.4	-14.2	-25.4
{Jan., 1949....			-5.0	-8.1	-26.0
CENTRAL ILLINOIS					
Bloomington				\$ 39	\$ 67
Percentage Change from... {Dec., 1949....			n.a.	-4.5	-28.8
{Jan., 1949....				-0.2	-1.4
Champaign-Urbana				\$ 38	\$ 76
Percentage Change from... {Dec., 1949....			n.a.	-0.7	-32.7
{Jan., 1949....				-5.1	+7.7
Danville				\$ 32	\$ 43
Percentage Change from... {Dec., 1949....			-54.3	-9.4	-46.5
{Jan., 1949....			+3.9	-3.5	+6.3
Decatur				\$ 60	\$ 78
Percentage Change from... {Dec., 1949....			-56.7	-13.6	-32.7
{Jan., 1949....			+1.2	-7.0	+10.7
Galesburg				n.a.	\$ 27
Percentage Change from... {Dec., 1949....			n.a.		-44.3
{Jan., 1949....					+2.8
Peoria				\$ 162	\$ 159
Percentage Change from... {Dec., 1949....			-57.0	+1.9	-44.2
{Jan., 1949....			-0.8	+0.8	+3.1
Quincy				\$ 28	\$ 74
Percentage Change from... {Dec., 1949....			-58.0	-10.2	-17.9
{Jan., 1949....			+3.0	-0.2	+14.2
Springfield				\$ 67	\$ 210
Percentage Change from... {Dec., 1949....			-60.1	-12.1	-16.1
{Jan., 1949....			-7.1	-7.8	+25.8
SOUTHERN ILLINOIS					
East St. Louis				\$ 104	\$ 47
Percentage Change from... {Dec., 1949....			n.a.	-2.2	-46.0
{Jan., 1949....				-1.4	+5.4
Alton				\$ 23	\$ 24
Percentage Change from... {Dec., 1949....			n.a.	-12.8	-44.3
{Jan., 1949....				-1.3	+16.3
Belleville				n.a.	\$ 29
Percentage Change from... {Dec., 1949....			n.a.		-47.0
{Jan., 1949....					+14.3

Sources: ¹ Illinois Department of Labor. Data on employment and payrolls include plants in areas surrounding designated cities.

² Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ³ Local post office reports.

^a Total for cities listed.

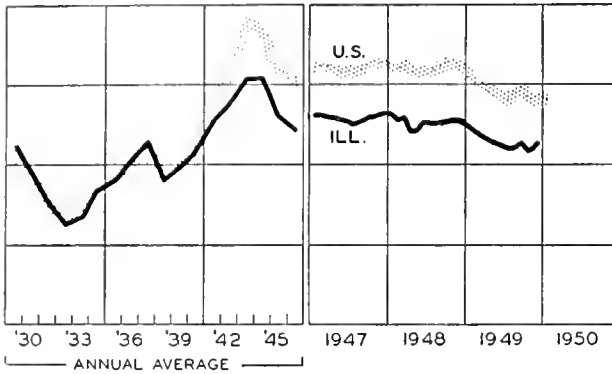
^b Moline only.

n.a. Not available.

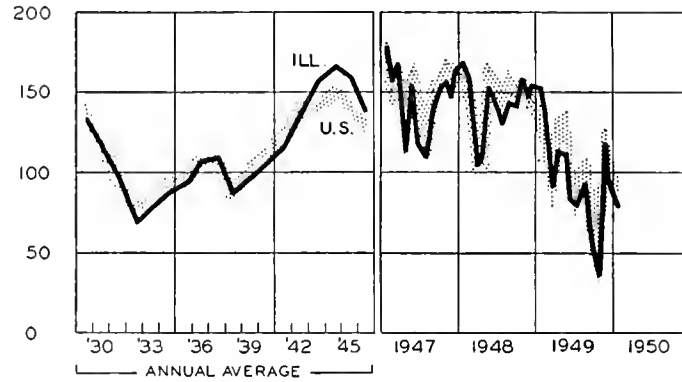
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

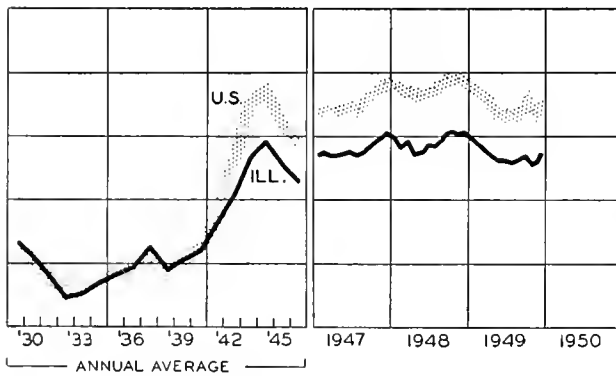
EMPLOYMENT - MANUFACTURING



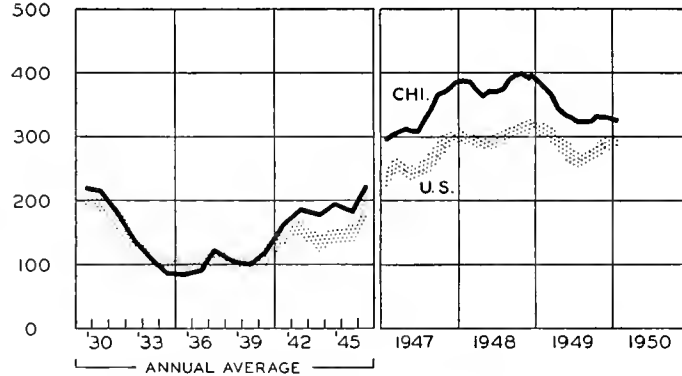
COAL PRODUCTION



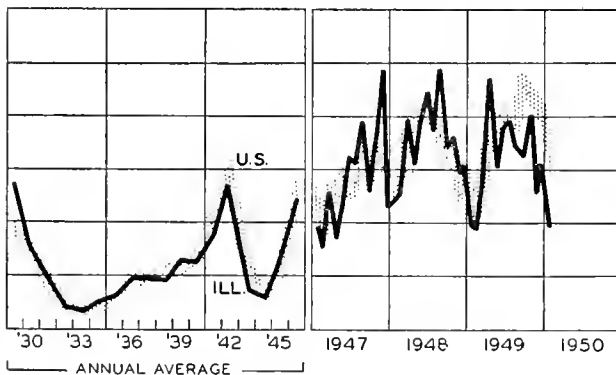
PAYROLLS - MANUFACTURING



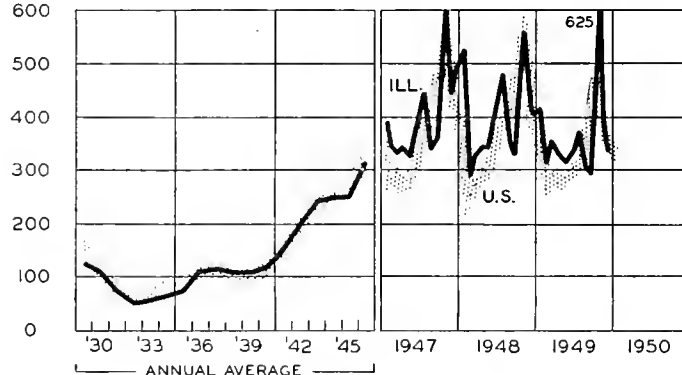
BUSINESS LOANS



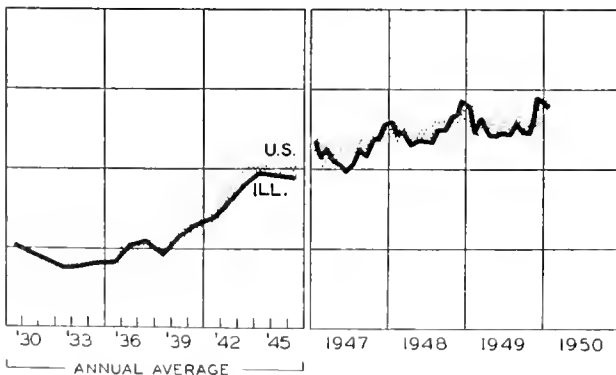
CONSTRUCTION CONTRACTS AWARDED



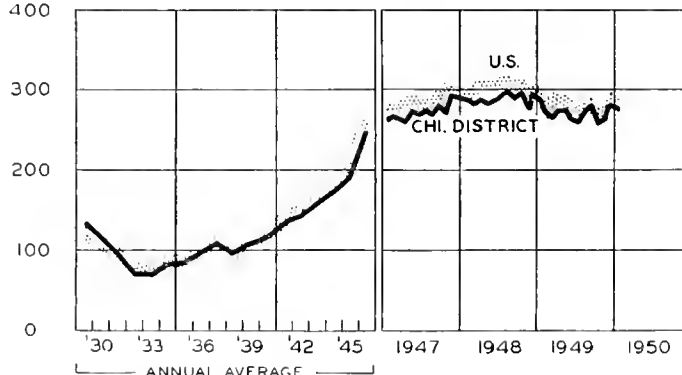
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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HIGHLIGHTS OF BUSINESS IN MARCH

Business was still improving at the end of March. The revival of industrial activity following the coal strike, Easter shopping, and the customary spring pickup in such key industries as construction and agriculture contributed to the general feeling of optimism.

Industrial activity recovered rapidly after the coal strike and was operating near record levels by the end of the month. Bituminous coal production was at a high of over 2 million short tons daily. Steel production rose to 97 percent of capacity, and allowing for the increase in capacity, production was higher than in the same week of 1949. Electric power was at an all-time peak of 6 billion kilowatt-hours weekly, nearly 10 percent above the corresponding week of March, 1949. And freight car-loadings were at a high for the year. The fact that new orders of manufacturers in February exceeded sales by over a billion dollars would appear to indicate continued high activity. During the past nine months wholesale prices have fluctuated within a range of only about one percent. This remarkable showing may indicate a tendency toward stability at present levels.

Capital Expenditure Outlook Improves

Capital expenditures of American business in 1950 may not be as low as was initially feared. The latest government survey reveals that businessmen now plan to reduce their plant and equipment expenditures in 1950 only 11 percent below 1949, instead of the 14 percent decrease stated three months ago. Even more significant is the fact that the main decline, 14 percent, is expected in the second half of the year, whereas capital expenditures in the first half of 1950, estimated at \$4.1 billion, are expected to be only 8 percent below the first half of 1949. Past experience with these capital anticipations surveys has shown that businessmen generally tend to underestimate their future expenditures by increasing margins, the further they look into the future. A continuation of business activity near present levels may well lead to strong upward adjustments in planned capital outlays later in the year.

The sharpest drop in capital expenditures is occurring in the transportation field, judging by a comparison of the estimates for the first half of 1950 and of 1949. Railroad capital expenditures are down 31 percent and other transportation is down 38 percent. Capital outlays of the manufacturing, construction, and miscellaneous commercial

industries, which account for nearly 70 percent of all such expenditures, are down only 8 percent. On the other hand, expenditures of electric and gas utilities continue at record levels; their anticipated \$1.5 billion outlays for the first half of the year would be 6 percent above the amount spent in the first half of 1949.

Employment Situation Improves

The number of unemployed in March dropped 600,000 to 4.1 million. This is 12 percent below the postwar peak attained in the previous month but still considerably above the 3.2 million unemployed in March, 1949. The revival of industrial activity following the end of the coal strike and the seasonal expansion of the construction industry were mainly responsible for the decline.

Total civilian employment was up 600,000 to 57.6 million, as the number of farm workers rose seasonally to 6.7 million, 450,000 above February. Nonagricultural employment rose slightly, by 150,000, to 50.9 million.

Construction Continues at Record Levels

A seasonal upswing caused expenditures for new construction in March to rise 8 percent above the unusually high February level to \$1.5 billion. This is a new high for the month and is 18 percent above new construction outlays in March, 1949. Home building continues to set the pace, accounting for 44 percent of total construction activity and running 50 percent above last March.

New construction activity in the first three months of 1950, at \$4.4 billion, represents the highest first quarter on record. As compared with the first quarter of last year, private construction has risen by 17 percent and public construction by 21 percent.

Personal Income Rises

Personal income in February rose by \$1 billion over the January level to \$219.1 billion, at seasonally adjusted rates. This is the highest monthly level on record, and is 4 percent above the figure for February of last year. The main cause of this increase was a substantial rise in dividend payments to veterans from the National Service Life Insurance, amounting to over \$9 billion at an annual rate. This was counterbalanced in part by wage losses from labor-management disputes and by a 16 percent drop in agricultural income from January levels.

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Investing and Speculating by Formula

In recent years increasing reliance has been placed by private investors and endowed institutions on formulas that limit or remove the element of judgment from buying and selling securities. They do this by specifying fixed points at which predetermined actions will be taken. Thereafter handling of the funds reduces to application of the formula rules.

Admittedly any such formula costs something. In order to avoid large losses, it must set up procedures that fail to obtain maximum gains; and profits foregone are but an alternative form of loss.

The main advantage of these formulas is probably their effect in removing discretion in situations where current developments may unduly influence judgment. Waves of optimism or pessimism are infectious, and few people are immune to the views and attitudes of their fellows. The formulas also tend to reduce responsibility for management of the funds, by pre-agreement on specified actions. Whether in a broader sense judgment is actually eliminated, or responsibility avoided, may be a debatable point. While the immediate decisions are made mechanically, the question of the soundness of this approach at times when analysis and judgment dictate another course cannot be avoided.

Investment Formulas

The basic objective of investment formulas is to improve upon the returns available from straight investment in bonds. Dissatisfaction with the old-fashioned, conservative procedure arises in part from the decline in interest rates, which has drastically reduced investment income.

The most common type of formula divides the funds between stocks and bonds. When stock prices are low, a larger proportion is put into stocks, and vice versa. Since stock prices are the volatile element, the formula usually sets its trading points in terms of a stock index. Thus, for example, suppose that a fair average for the Dow-Jones index over a long period of time is assumed to be 150, and at this level holdings are equally divided between stocks and bonds. Then, whenever the index moves up a certain distance, say 10 percent, stock holdings are reduced, say by 10 percent. The first 10 percent

increase in prices over 150 brings the proportion of stocks down to 40 percent; the second to 30 percent; and so on, until all stocks are sold off. When prices are falling, reverse shifts are made, possibly until the whole fund is in stocks. Variations on this basic pattern are almost infinite, introducing, for example, a trend factor. A growing literature is available to explain them.

The way these formulas make money is by obtaining the gains of advancing stock prices and avoiding the losses of falling stock prices. It works beautifully when stock prices are fluctuating around a fairly stable level, to which they always return. This does not have to be the mid-point of the trading range, but only a portion large enough to carry prices over some of the trading points. Increases in the value of formula funds are sometimes substantial, and might even exceed the gain on an outright investment in stocks over a long period in which the general trend was upward.

What these formulas miss are the profits from wide swings of the market, because stocks are held only through about half the formula's trading range. Proponents justify this on the basis that playing the wide swings is "speculation" rather than investment—sliding over the fact that all these formulas are basically an effort to introduce an element of speculative gain into investment operations. They also justify it on the ground that any gains at the higher price levels will be lost on the next decline, assuming that eventually prices will drop back to the trading points. Aside from the fact that "eventually" may cover too much time for the ordinary investor, the profits foregone by being out of the market over a period of years may be substantial.

Proponents of formula operations also hold that if everyone behaved in accordance with these plans, the stock market would be greatly stabilized—by concerted buying at the lower levels and concerted selling at the upper. But would this be the dependable result? Suppose basic economic conditions justified a large rise in stock price, but concerted sales from the formula funds kept prices from rising in line with their real value. How long could a large and growing discrepancy persist? And when prices finally moved to eliminate it, would the total advance be any less?

Formulas for Speculation

The speculator attempts not so much to obtain a limited return with safety as to obtain the largest possible gain in the shortest possible time. Ordinarily he takes a definite position and holds it until the time comes for a reversal, and then the reversal is complete. His attitude is perhaps best expressed in the old speculative maxims: "Buy low and sell high!" and "Limit your losses, but let your profits run!" Speculative formulas have been contrived to apply these principles rigorously.

The simplest of such formulas is a "stop-loss" order that follows the market upward and provides for selling at a fixed distance below the highest price reached. Thus, whenever the market falls a specified percentage from the peak, say 3 or 5 percent, or some other percentage appropriate to the specific holdings, all stocks are sold and an equal short sale may be made.

Perhaps the most widely known of such devices is the Dow theory, which becomes a formula when the secondary movements are defined arbitrarily, so as to eliminate any question of whether a fluctuation is a secondary movement or not. It establishes the direction of market

(Continued on page 6)

PAINT AND VARNISH

Most of the early American colonists thought that painting was extravagant and it was not until after the Civil War that there was widespread use of paint in the United States. People who did paint their property generally used a home-made mixture of white lead and linseed oil. The first ready-mixed paint was produced in 1867 but manufactured paint products were not generally accepted until about 1880, after which the paint and varnish industry steadily expanded until the 1930's.

World War II brought an enormous increase in demand which almost doubled dollar sales between 1940 and 1945. In 1947 the value of paint and varnish products exceeded \$1 billion for the first time, and sales again topped the billion mark in 1948. Although 1949 product value declined to \$942 million, partly because of price reductions, this year the industry expects to regain its status as a billion-dollar enterprise.

Another Illinois "First"

More paint and varnish is manufactured in Illinois than in any other state in the nation. The value of paint products produced in Illinois in 1947 was 23 times as great as it was at the turn of the century. This increase was even greater than the outstanding eighteenfold gain in the value of these products for the nation as a whole in the same period. In 1947, Illinois paint shipments were valued at \$185 million, almost 15 percent of the national total, making the industry one of the biggest in the State.

Most of the more than 100 Illinois paint and varnish manufacturers are located in the Chicago area, although Waukegan, Springfield, East St. Louis, and Galesburg have two paint plants each, and Rockford has three. Illinois paint producers employ over 7,000 workers, about 2,500 of whom work at the Chicago plant of the Sherwin-Williams Company, the largest producer of paint in the world. Other large firms with paint plants in Illinois include Glidden, DuPont, Sears, Roebuck and Company, and Montgomery Ward. The majority of Illinois paint manufacturers, however, employ fewer than 100 workers.

Products for Every Purpose

The earliest use of paint was for decoration, but its basic and primary purpose is to protect the material to which it is applied. Today about 1,400 companies in the United States manufacture protective and decorative coatings for everything from skyscrapers to hairpins. Although the most generally used type is ready-mixed oil paint, the industry is known for its variety of products.

Most of the credit for this versatility belongs to the research laboratory, which has converted the manufacture of paint from a purely mechanical mixing process to a highly technical chemical procedure. Paint chemists not only study the chemical reactions that occur when innumerable combinations of ingredients are mixed and applied, but are constantly working on new raw materials.

The laboratory must also devise products to meet the specific needs of many different customers, since a con-

siderable amount of paint is made to order. Because actual exposure is the only method of determining paint characteristics after application, the industry also carries on an endless routine of panel testing.

The main ingredients in paint are fine insoluble powders called pigments, drying oils, and thinners such as turpentine and naphtha. There are many different kinds of pigments—some are used to give color to the paint, but the majority are valued for their ability to keep out ultraviolet light, which eventually disintegrates the oil binder. Paint oils, chiefly linseed, tung, and soybean oil, are called drying oils because they combine with the oxygen in the air and are converted into a solid elastic skin after the thinner evaporates.

The handling of the several thousand raw materials available to the modern paint plant is one of the largest operations of the industry. Most plants have huge storage capacities, and rigid safety precautions are necessary to guard inflammable materials, some of which are handled by remote control.

Paint manufacturers use essentially similar operations for preparing the same types of formulas. The first step in the manufacture of oil paint is the mixing of all the pigments except the color with a part of the vehicle to form a paste which is ground in order to wet the pigments thoroughly. This paste is reduced by the addition of the remainder of the liquid ingredients, and tinting pigments are added by hand, an art that takes apprentices at least a year to master. The paint is then approved by laboratory test, strained, and automatically canned, labeled, and boxed.

Because the ingredients must be heated before they will combine, varnish manufacturing involves more chemical reactions than paint production and requires extensive safety precautions, both during the cooking of the resin and oil which form the base of ordinary varnish, and in cooling and thinning with volatile liquids.

Future Looks Bright

The outlook for the paint and varnish industry is excellent. Construction, always a factor in paint demand, has risen consistently since the war. The F. W. Dodge Corporation reports that construction contracts awarded hit an all-time dollar high in 1949, and total construction volume in 1950 is expected to equal or top the one million new houses and apartments constructed last year.

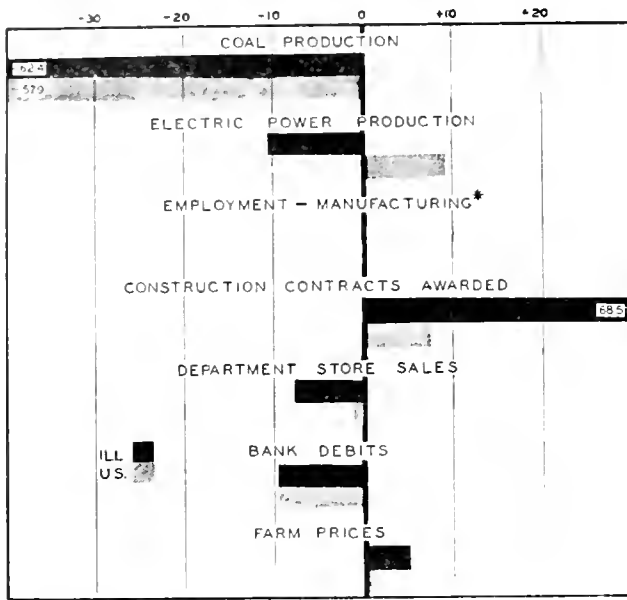
Even with a billion dollar volume, the paint industry estimates that it is selling only about one-fourth of the market. Manufacturers are trying to stimulate demand with constantly improved products. Water emulsions, such as Kem-Tone and Spred, are increasing in popularity and are now available in semi-gloss and gloss products. One-coat outside paints with long-wearing properties, extremely washable and durable interior paints with a synthetic rubber base, and self-priming paints are also among the industry's recent contributions to the efficiency and appearance of the American home.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage Changes January, 1950, to February, 1950



* Figure for Illinois not available.

ILLINOIS BUSINESS INDEXES

Items	February 1950 (1935-39 = 100)	Percentage Change from	
		Jan. 1950	Feb. 1949
Electric power ¹	253.0	-10.5	+ 2.6
Coal production ²	30.5	-62.4	-78.0
Employment—manufacturing ³	n.a.		
Payrolls—manufacturing ³	n.a.		
Dept. store sales in Chicago ⁴	218.2 ^a	- 7.5	- 3.6
Consumer prices in Chicago ⁵	172.0	- 0.2	- 0.5
Construction contracts awarded ⁶	332.5	+68.5	+73.4
Bank debits ⁷	259.2	- 9.5	+ 8.2
Farm prices ⁸	212.7	+ 4.4	- 4.4
Life insurance sales (ordinary) ⁹	174.8	+ 7.2	+ 3.0
Petroleum production ¹⁰	224.1	- 8.9	+ 4.3

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Coop. Crop Repts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	February 1950	Percentage Change from	
		Jan. 1950	Feb. 1949
	Annual rate in billion \$		
Personal income ¹	219.1 ^a	+ 0.5	+ 3.7
Manufacturing ¹			
Sales.....	211.2 ^a	+ 0.6	- 2.7
Inventories.....	31.1 ^{a, b}	0.0	- 9.6
New construction activity ¹			
Private residential.....	7.2	- 7.7	+50.0
Private nonresidential.....	5.7	- 2.2	- 5.3
Public nonresidential.....	3.7	- 6.3	+20.5
Foreign trade ¹			
Merchandise exports.....	9.2	+ 3.4	-26.2
Merchandise imports.....	7.2	- 3.9	+ 5.6
Excess of exports.....	2.0	+40.2	-64.2
Consumer credit outstanding ²			
Total credit*.....	18.2 ^b	- 1.2	+18.3
Installment credit.....	10.9 ^b	+ 0.5	+30.6
Business loans ²	13.8 ^b	- 0.6	- 8.7
Cash farm income ³	19.2	-28.7	- 5.0
	Indexes (1935-39 = 100)		
Industrial production ²			
Combined index.....	180 ^a	- 1.6	- 4.8
Durable manufactures.....	207 ^a	- 1.0	- 8.0
Nondurable manufactures.....	179 ^a	0.0	+ 3.5
Minerals.....	118 ^a	- 9.2	-20.8
Manufacturing employment ⁴			
Production workers.....	146 ^a	0.0	- 4.9
Factory worker earnings ⁴			
Average hours worked.....	106	0.0	+ 0.8
Average hourly earnings.....	238	+ 0.1	+ 1.4
Average weekly earnings.....	251	+ 0.1	+ 2.1
Construction contracts awarded ⁵	330	+ 6.7	+37.1
Department store sales ²	280 ^a	- 0.7	- 1.4
Consumers' price index ⁴	167	- 0.2	- 1.5
Wholesale prices ⁴			
All commodities.....	190	+ 0.8	- 3.4
Farm products.....	209	+ 2.8	- 5.5
Foods.....	198	+ 1.3	- 2.9
Other.....	180	+ 0.1	- 3.9
Farm prices ³			
Received by farmers.....	221	+ 0.9	- 7.1
Paid by farmers.....	198	- 0.4	- 1.6
Parity ratio.....	96 ^c	+ 2.1	- 5.0

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ^a Seasonally adjusted. ^b As of end of month. ^c Based on official indexes, 1910-14 = 100. n.a. Not available. ^d Data being revised downward. See page 6.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1950					1949	
	Mar. 25	Mar. 18	Mar. 11	Mar. 4	Feb. 25	Mar. 26	
Production:							
Bituminous coal (daily avg.)	thous. of short tons	2,062	2,223	2,200	513	437	405
Electric power by utilities	mil. of kw-hr.	5,993	6,015	5,937	5,879	5,854	5,404
Motor vehicles (Wards)	number in thous.	133.9	128.1	118.5	116.9	117.5	116.2
Petroleum (daily avg.)	thous. bbl.	4,781	4,776	4,758	4,839	4,930	5,130
Steel	1935-39=100	203.9	191.8	157.0	157.4	189.6	208.8
Freight carloadings	thous. of cars	717	726	708	574	547	596
Department store sales	1935-39=100	278	264	253	244	221	277
Commodity prices, wholesale:							
All commodities	1926=100	151.7	152.0	152.0	152.6	152.5	158.3
Other than farm products and foods	1926=100	145.4	145.2	145.4	145.4	145.3	150.6
28 commodities	August, 1939=100	246.1	245.8	246.5	248.0	248.7	259.4
Finance:							
Business loans	mil. of dol.	13,847	13,889	13,798	13,834	13,854	14,962
Failures, commercial	number	186	208	221	179	210	166

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Gains

The Federal Reserve Board, in a preliminary report of industrial production during March, estimated output at the highest point since March, 1949, or slightly above the January level of 183 (1935-39 = 100).

Production in heavy industries made a quick recovery from the strike-induced February decline. The steel industry, attempting to make up for output lost, boosted scheduled operations from 73.5 percent at the beginning of March to 96.7 percent of rated capacity in the last week of the month. Production of 1,843,400 net tons of ingots and castings in the week of March 27 was the highest in a year. Despite labor unrest, the automotive industry turned out an average of nearly 130,000 units weekly, and by the end of the month had produced a first-quarter total of more than 1,600,000 cars and trucks. Coal production rebounded to more than 13 million tons weekly immediately after the strike, substantially above the pre-strike average for a five-day week.

Electric power production has not shown its usual decline from the December peak. The chart below illustrates the fairly steady climb in power production by electric utilities in the last three years from 21.6 billion kilowatt-hours in January, 1947, to 26.9 billion kilowatt-hours in January, 1950. Most of the increase (about 80 percent) is seen to have resulted from greater production by fuel-using utilities.

Construction Rises Seasonally

Building activity started its spring rise in March with an 8 percent climb over the February level. New construction valued at \$1.5 billion put in place last month was nearly one-fifth higher than that of March, 1949. A 5 percent increase brought private construction to \$1.1 billion, and public construction rose 15 percent to \$375 million.

A report in the March *Survey of Current Business*

on the demand for residential construction states that even after the high level of construction of recent years, requirements for housing are still great. Only about two-thirds of the 1945 backlog has been satisfied, and then partly through use of temporary shelters. Estimating the unsatisfied demand to be between 1,250,000 and 2,500,000 units, the Department of Commerce expects that the present high level of building may last another three years if business conditions remain favorable.

Labor Situation Easier

A seasonal gain in employment of 600,000 workers, with a roughly corresponding drop in unemployment, tended to relieve the uneasy labor atmosphere of recent months. Even though three-fourths of the gain in employment occurred in farm work, an estimated increase of 147,000 workers occurred in nonagricultural jobs. Much of the latter rise was attributed to the recall of construction workers as building activity expanded. Bureau of Census data, in thousands of workers, are as follows:

	March 1950	February 1950	March 1949
Civilian labor force	61,674	61,637	60,814
Employment	57,551	56,953	57,647
Agricultural	6,675	6,223	7,393
Nonagricultural	50,877	50,730	50,254
Unemployment	4,123	4,684	3,167

Report on Foreign Trade

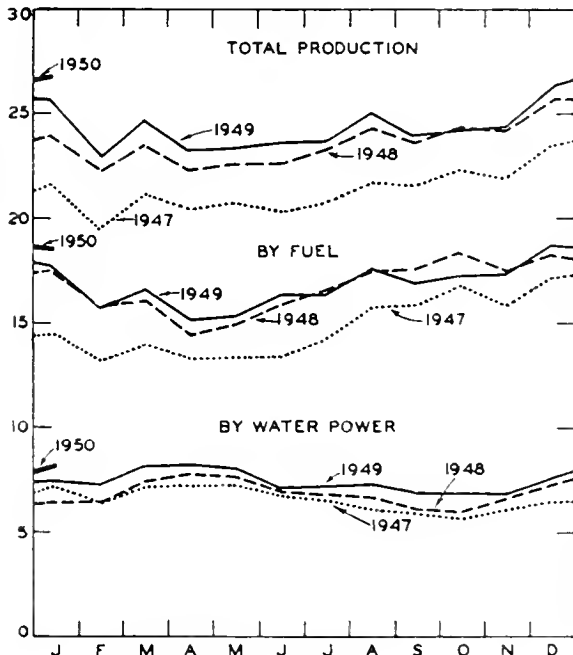
A summary of United States foreign transactions in the fourth quarter of 1949 reveals that foreign countries were then supporting a larger proportion of their purchases of goods and services from us with the sale of their own goods and services than formerly. This was made possible, however, more by cutting their purchases here than by increasing their sales. The gap between American exports and imports, totaling about \$1.6 billion in the last quarter of 1948 and the first quarter of 1949, by the fourth quarter of 1949 had dropped to \$1.1 billion. With grants and loans amounting to slightly more than \$1.5 billion in the fourth quarter, foreign countries were able to add \$442 million in gold and dollars to their financial reserves.

The European Cooperation Administration reports that agricultural production in Western Europe in 1949-50 will be at a new high; industrial production, excluding Western Germany, was 29 percent higher last year than in 1938; steel output in 1949 was one-sixth higher than in 1948; output of textile yarns was up 15 percent from 1948; and coal production increased 9 percent over 1948. Production is now less a problem in Western Europe than the actual exchange of goods, which, although increasing steadily, is still hampered by lack of foreign exchange.

A recent report on the export control acts of 1947 and 1949 states that government controls are now almost entirely concerned with the shipment of materials important to the nation's security. Trade with the Soviet sphere has fallen off greatly, declining 70 percent from the first quarter, 1948, through the third quarter of 1949. Exports to Russia alone fell from nearly \$21 million to about \$500,000 during those months. From March 1, 1948, to the end of 1949, export licenses were refused for about \$160 million worth of commodities, most of which were to have been sent directly to Eastern Europe.

ELECTRIC POWER PRODUCTION BY UTILITIES

MILLIONS OF KILOWATT HOURS



Source: Federal Power Commission.

Price Indexes Change Fractionally

The BLS wholesale price index declined only fractionally during March, from 152.6 to 152.1 (1926 = 100). Prices of farm products and foods were again responsible for the drop, more than offsetting the very slight rise in prices of all other commodities.

Although the index of farm prices received showed no change in the month ended March 15, prices paid by farmers rose 0.8 percent (1910-14 = 100). Small but general price increases, mainly in feeder livestock, food, tools, and building materials, were responsible. As a result, the parity ratio fell one point to 95, the lowest, except for last January, since mid-1941.

Consumers' prices, which rose almost steadily from June, 1946, to August, 1948, continue the sideways movement which was general throughout 1949. After rising from 133.3 (1935-39 = 100) at the end of OPA controls to a high of 174.5, the "cost of living" index has seemingly settled down to changes within the range of 165 to 170 percent of the prewar average, as shown by the chart. During the month ended February 15, prices of consumer goods slipped off a little more to 166.5 percent of the average, or about the level of March, 1948.

Manufacturers' Sales About Level

After seasonal adjustment, sales totaled \$17.7 billion, just slightly above January's \$17.6 billion. Durable goods sales showed a minor decline from \$7.5 billion to \$7.4 billion, mainly because of the Chrysler strike; nondurables sales rose from \$10.2 billion to \$10.3 billion. Strong items among the durables were nonferrous metals, machinery other than electrical, and building materials; among nondurables, petroleum, chemicals, and leather products led. Inventories in both categories remained at the January level.

New orders, although somewhat below January, still exceeded sales by manufacturers. On a seasonally unadjusted basis new orders for durables totaled \$8.0 billion as against sales of \$7.1 billion; for nondurables, orders amounted to \$10.2 billion, sales to \$9.9 billion.

Retail sales after seasonal adjustment also remained about the same in February as in January. Of the \$150 million gain in February, to almost \$11 billion, nearly two-thirds occurred in durables. Dollar sales nearly equaled the August, 1948, high, and the actual volume of goods sold exceeded the level reached at that time.

Credit Data Revision

Consumer credit data compiled by the Federal Reserve Board will be revised within the next three or four months. The revision will affect only the single-payment loans category, which in the past has included loans as high as \$10,000 to \$20,000. The FRB feels that loans of such size can scarcely be called "consumer credit," and is expected to limit the size of single-payment loans in its data to about \$3,000. The revision will cut an estimated \$2 billion from the reported total of \$3 billion outstanding in such loans on February 28 and decrease the total consumer credit of \$18.1 billion by the same amount. The table of monthly indexes on page 4 will continue to carry the old series until the revision is completed.

Investing and Speculating by Formula

(Continued from page 2)

action not at the first reversal of the primary trend, but at the point where the extreme price of the first reversal is again exceeded in the new direction. Years ago, a group of us undertook an analysis of the Dow theory by defining a secondary movement as any fluctuation that exceeds a fixed percentage. Taking this percentage as any in the range of three to seven percent yielded good results, though a straight investment in Dow-Jones stocks held throughout the period covered by these studies would have been better still.

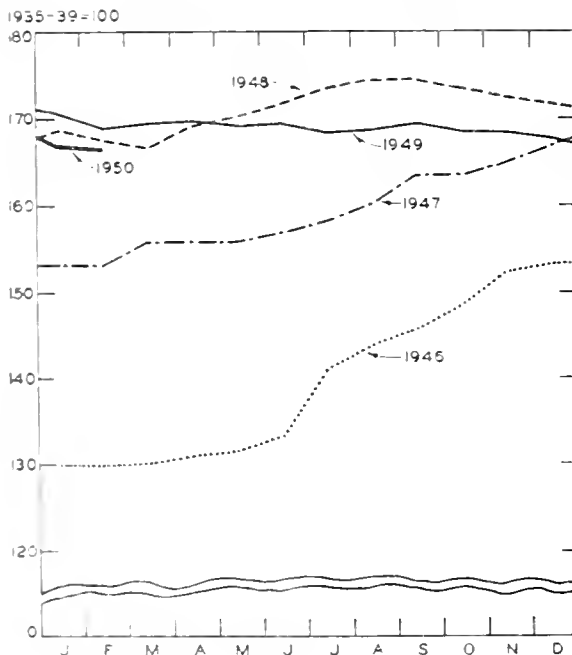
In relying on such a formula, the type of market that produces losses is precisely that which produces gains for the investment formula—sharp reversals around a fixed level—and no doubt the followers of the Dow theory have suffered substantial losses because of the false signals given by the index in these postwar years. Then, too, investment formulas have gained supporters among those who were caught in the 1946 decline; however irrational that decline may be considered, they can't help but regard favorably anything that would have taken them out of the market near the peak. Yet, the continuity of market action that underlies the Dow theory cannot be said to have changed. With prices now pointing toward the higher levels justified by interest rates and earnings, the case for investment formulas cannot be considered proved.

What is interesting in this situation is that we have two diametrically opposed approaches to what is essentially the same problem. The one attempts to take advantage of fluctuations around a level, ignoring the possibility of permanent large changes in level; the other regards the limited fluctuations around a fixed level as inconsequential and aims at realizing on the wide changes in level. The present market may, to some extent, be reflecting this battle of the formulas. Resistance points are undoubtedly made more resistant in so far as investment formulas call for shifting to bonds. This forces the speculators who have obtained a "buy" signal to work through the formula "sell" orders before prices can advance.

Perhaps the working out of the best strategy is a problem for the mathematicians interested in the theory of games. As for us, we shall, without disputing the point that the market makes its own rules at times, hold to the theory that prices will continue to reflect changes in real values over the course of the business cycle.

VLB

CONSUMERS' PRICE INDEX



Source: Bureau of Labor Statistics.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Parity Price Formula

The February issue of *The Agricultural Structure* contains an article describing the new parity price formula set up by the Agricultural Act of 1949, the first important change in the calculation of parity prices since they began in 1933. The old formula was severely criticized for maintaining pre-World War I relationships between the prices of various commodities. The new method of calculation still bases the over-all relationship between the prices farmers get and the prices they pay in the 1910-1914 base period, but shifts the determination of the relationships among the prices of single commodities to the ten years immediately preceding the calculation.

The average price of each commodity during the preceding ten years is computed and divided by the average of the index of prices received 1910-1914 = 100, for the same period, to give an "adjusted" base price. This adjusted price is then multiplied by the current Parity Index (The Index of Prices Paid by Farmers Including Interest, Taxes, and Wage Rates 1910-1914 = 100) to get the effective parity price. As a general rule, the new formula will not be used until 1954 unless it gives a higher price than the old method.

Electronic Office Machines

Remington Rand Incorporated expects to apply the electronic principles of its "Univac" mechanical brain to conventional adding, bookkeeping, and tabulating machines in from 12 to 18 months. The company has announced that it will devote an entire plant to the manufacture of the "Univac," an instrument especially suitable for industries, such as insurance and airplane manufacturing, having complicated mathematical problems. The electronic methods of the "Univac," which adds, subtracts, multiplies and divides at incredible rates of speed, could greatly increase the efficiency and speed of existing office machinery.

Self-Heating Glass

An electronically configured transparent metal-oxide "skin" makes a new glass developed by the Corning Glass Works a self-heating unit suitable for use in wall panels, windshields, and office periscopes. Essentially a transparent stove that heats air or boils water, the glass has been used for warming units in baby stink incubators, for drying textiles and the lacquer on playing cards, and for windshields. A strong heat-resistant type of glass is used that can be fashioned into any shape, and the complete heating unit not only can produce a wide range of temperatures but has a guaranteed life of 1,000 hours, although it is believed capable of indefinite operation.

Consumer Income

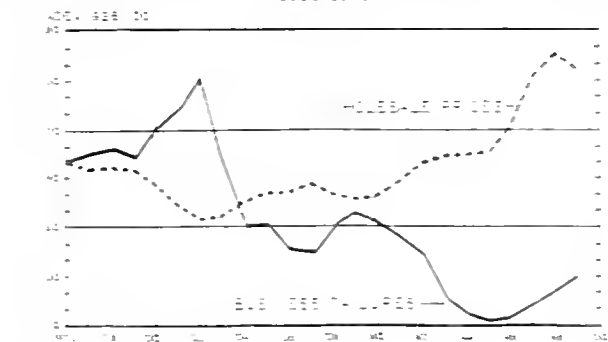
The Bureau of the Census *Survey of Consumer Income for 1948* reveals that 8 million families in the United States received incomes of \$5,000 or more in 1948, and that 11 million families had incomes under \$2,000. The income of the average or median family was \$3,200, about \$150 higher than in 1947 and \$900 higher than in the war years of 1944 and 1945. The eight million individuals not in families had the same median income, \$1,000, in 1948 as they had in the preceding four years.

The tendency for median incomes to increase with the size of city has again evident in 1948, as urban incomes ranged from \$5,000 for those in the smallest urban places to \$8,500 for those living in cities of a million or more. Rural-farm families had a median income of \$3,800, compared with a median of \$2,700 for rural residents not on farms.

Wholesale Prices and Business Failures

The financing of the two great wars in which the United States has been involved and the effects on our economy of the resulting government deficits are examined in a study in the *Prices and Volatility: Wholesale Prices and Business Failures* recently published by Don & Bradstreet. As shown in the chart, the study points out that an inverse correlation exists between the level of wholesale commodity prices and the index of yearly business failures. Government controls during and after World War II had a somewhat stabilizing effect on prices, but between 1941 and 1948 the index of wholesale prices expanded by 104.8 percent, reaching the highest point since 1774 with 1948 in 1948. In 1948 failures hit an all-time low of 874, only 4 per 10,000 listed concerns. The 1948 figure of 874 failures indicated 34 failures per 10,000 concerns, still a small number compared with the yearly rates since 1900, many of which approached 100.

WHOLESALE PRICES AND BUSINESS FAILURES 1900-1948



Source: Don & Bradstreet, Inc.

New Wood Products

The U. S. Forest Service's Division of Forestry has announced the first commercial method of making good cheap paper pulp from hardwood. The result of a five-year research project conducted by the Division, the process would reduce the cost of pulp for the manufacture of newsprint and other paper products by at least 82.5 a ton. This quality hard wood pulp would cost less than \$4 a ton and would be substituted for ground spruce pulp currently selling for \$13. Hardwood pulp would be comparable in the Northeastern states to comparable softwood pulps.

A new type of 100-gauge paper can be made from waste chips and shavings for 15¢ a pound, less than the cost of the cheapest 100-gauge paper now on the market by the U. S. Forest Service. Development of the new type of paper began in 1945 and is expected to be completed by 1950.

Continued on page 4

WAGES AND EMPLOYMENT

SOLOMON B. LEVINE, Research Assistant
Institute of Labor and Industrial Relations

Although substantially the same amount of employment existed in the opening months of 1950 as last year, industry has found it increasingly difficult to expand employment opportunities for a growing labor force. Unemployment reached 4.78 million in mid-February, 1950, the highest level since 1941, and official estimates place the number of unemployed during March at over 4.1 million. Despite this increasing slack in the labor force, average weekly earnings have been maintained at about the same level, while the cost of living has declined slightly.

These developments have lead unions generally to shift their collective bargaining emphasis to demands for social security financed by private industry; and a number of unions, notably in textiles and steel, have foregone basic wage rate increases in recent contracts. A major exception to this development has been the coal settlement, which provided a 70 cent per day wage increase, in addition to increased royalty payments to the miners' Health and Welfare Fund. Other exceptions derive largely from special conditions of employment; for example, many AFL crafts have obtained wage increases, usually from 5 to 8 cents per hour. These exceptions, together with continued prosperity and the maintenance of high profits, still provide a basis for advancing demands for wage rate increases.

Employment and Unemployment

Unemployment in February, 1950, represented a rise of over 20 percent above the number unable to find work in the same month of the previous year. As shown on Chart 1, unemployment advanced gradually during 1949,

whereas in 1947 and 1948 it remained relatively stable, fluctuating between $1\frac{1}{2}$ and $2\frac{1}{2}$ million, or between $2\frac{1}{2}$ and 3 percent of the total labor force. This percentage is considered a minimum for our economy.

By February, 1950, about one out of every 14 persons in the civilian labor force of over 61 million was reported out of work. The hardest hit regions have been the Pacific Coast, the Northwest, the central South, and the northern New England states; and in these areas, unemployment has beset 9 percent or more of the work force. Many of the jobless have already exhausted their unemployment benefits, and several of the states are on the brink of running out of unemployment compensation funds. The groups finding it most difficult to obtain work are principally the oldest and youngest people in the labor force.

The growth in unemployment has not been accompanied by a corresponding decline in employment. Slightly less than 57 million were employed during January and February of this year. Chart 1 shows that this volume of employment was only slightly below the same period in 1949. Nonagricultural employment, which totals about 50 million, has exhibited the same degree of stability.

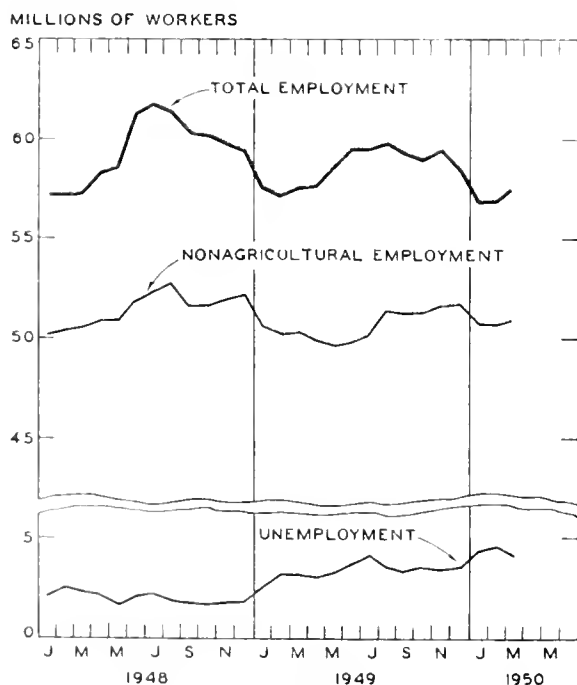
A major decline in employment, however, has taken place in the manufacturing industries. Manufacturing usually accounts for about one-third of nonagricultural employment and about one-fourth of total civilian employment. As shown on Chart 2, about 8 percent fewer workers were employed in manufacturing during January, 1950, than during January, 1949, and over 13 percent fewer than in January, 1948. Between January, 1949, and January, 1950, the decline in the number of production workers in manufacturing was almost 800,000. This reduction reflects both a decline in manufacturing activity and an increase in production per man-hour during the past year. The durable goods sector of manufacturing, in particular, experienced sizable reductions in employment during this period. In addition, average hours worked per week by an employee in manufacturing declined slightly. Expansions in other segments of the economy, such as construction, trade, and service, have served to make up for the decline in manufacturing employment.

Since the end of 1948, an increase in the labor force has accompanied the natural growth in population and the completion of study programs by veterans under G. I. benefits. Altogether, a million and a half workers have been added during this period. The failure to absorb this growth has been due principally to the recession in business activity experienced during the first half of 1949, to the stabilization of economic activity, and to the introduction of labor-saving technologies.

Productivity, Wages, and Prices Since 1948

Productivity in manufacturing has advanced noticeably since the end of 1948, as may be seen from Chart 2 by comparing physical output and the number of workers employed in manufacturing. For this purpose physical output is measured by the Federal Reserve Board index of manufacturing production. The index fell steadily from October, 1948, to July, 1949, and then recovered about one-half of the decline. Production worker employment in manufacturing accompanied the decline in manufactur-

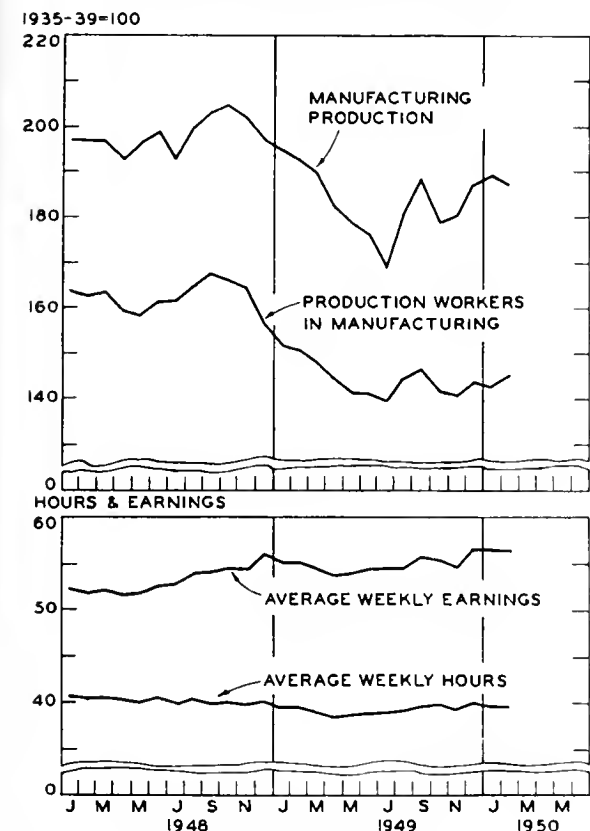
Chart 1. EMPLOYMENT AND UNEMPLOYMENT



Source: Bureau of Labor Statistics.

ing output, but failed to share in the recent recovery. And, as has been noted, the number of production workers declined about 8 percent in 1949. When account is also taken of the fact that average weekly hours declined slightly, the increase in production per man-hour in manufacturing during 1949 was probably about 5 percent.

Chart 2. PRODUCTION, EMPLOYMENT, AND WAGES IN MANUFACTURING



Sources: Bureau of Labor Statistics;
Federal Reserve Board.

It is not likely that advances in productivity in other segments of the economy were as large as this, but probably some did occur. Accordingly, fewer workers are now required to produce a given amount of goods and services.

Another significant change in economic relationships during the past year has been the course of prices compared to wages. The cost of living, as measured by the consumers' price index of the Bureau of Labor Statistics, began to decline during the summer of 1948. (See chart, page 6.) Since that time, the decline has gradually continued, so that by the beginning of 1950 the cost of living was at the level of December, 1947, and more than 2 percent below the level of January, 1949.

Average weekly earnings for production workers in manufacturing, on the other hand, were maintained at a slightly higher level than in 1948. In February of this year average weekly earnings in the manufacturing industries were \$56.37, whereas in the same month of last year they were \$55.20. This slight rise reflects wage increases obtained at the tail end of the "third round" of wage negotiations, relatively small wage rate increases obtained by some unions in the current "fourth round," and raises granted to unorganized worker groups. During the past year, there was also a tendency for wage gains

in comparison with cost of living increases since the end of the war to even out among industries.

The result has been that, for the first time since the end of World War II, workers found that in 1949 their buying power had not been reduced by rising prices. This development deprived trade unions of one of their most weighty arguments for wage increases in recent years.

The Pattern of Impending Negotiations

Developments in employment and unemployment have prompted unions to proceed with caution in seeking basic wage rate adjustments. The shift in bargaining emphasis to worker security and welfare provisions in part reflects this caution, and in part arises out of a growing concern with the adequacy of Federal and state social security legislation, intensified rivalry between trade union leaders, and the lessened urgency to keep wages abreast of rising prices. Some of the recent settlements, such as at Bethlehem Steel, provide for a reduction in employer contributions to pensions should the Federal government liberalize its social security program. In addition, the success of the United Mine Workers in obtaining welfare benefits during 1947 and 1948 has impelled leaders of other trade unions to press for similar gains for purposes of prestige and holding worker loyalty. It appears likely that unions will continue to seek welfare and security benefits wherever there is no such coverage by private industry.

Most unions, however, are now entering a stage in their collective bargaining demands where they are likely to insist upon wage rate increases as well as "fringe" benefits. The recent mine worker contract, which included wage increases as well as security benefits, has given impetus to such multiple-demand bargaining. The outcome of present negotiations between the United Automobile Workers and General Motors will also provide a key to this development. The auto workers have presented a 31 cent "package," which includes a demand for a 9 cent increase in basic wage rates as well as social security, pension, and retirement stipulations. At General Motors the insistence upon wage increases has been strengthened by a 2 cent per hour cut in pay during March, in line with a provision that calls for wage decreases to follow cost of living adjustments. The union leaders have expressed dissatisfaction with this provision and hope to recapture the losses under the arrangement. Other unions are awaiting the outcome of these negotiations to determine how far they should press for basic wage rate increases.

Despite the unemployment, which appears likely to increase, unions cite grounds for wage rate demands in addition to security provisions. The advance in productivity has prompted a growing insistence to share cost savings with workers through a general wage increase, especially in view of the fact that profit rates continue to remain high. The appearance of unemployment itself will also bring forth the argument that wage increases are necessary to provide mass purchasing power which will induce investment activity and expand employment opportunities. Future negotiations are also apt to stress hours reductions as a means of sharing the work and combating unemployment.

Business Briefs

(Continued from page 7)

40 to 50 million feet annually. The new paneling, called Novopan, is especially suitable for furniture manufacturing and could enable furniture producers to turn out merchandise at a fraction of current costs.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity in February reflected the impact of the coal strike. Business was generally above February, 1948, though below the January level. In contrast to the general declines, construction activity increased sharply over January. Increases were also noted in postal receipts and life insurance sales.

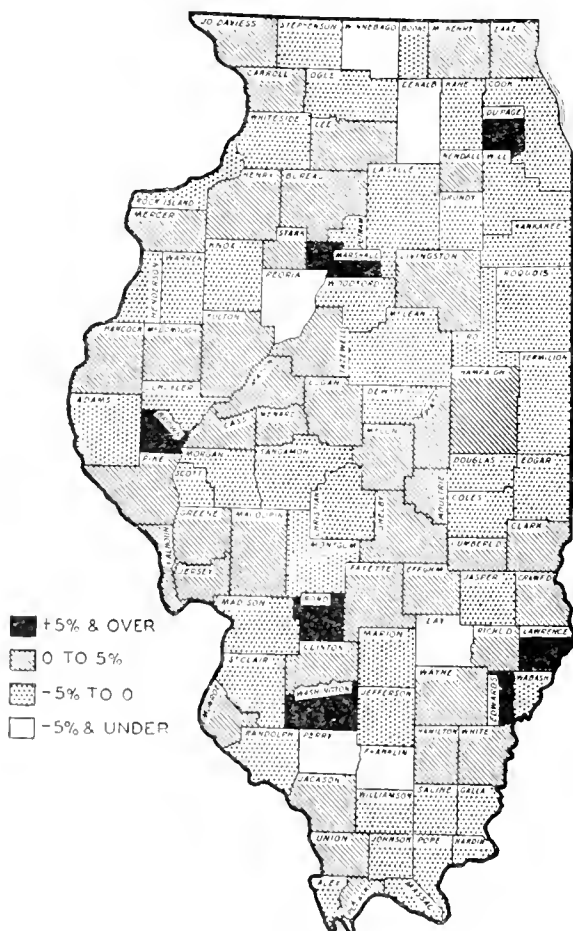
Retail Sales

Department store sales throughout the State averaged 9 percent less than in January and 4 percent less than in February, 1948. February department store sales in Chicago, as well as all retail sales in the area, were down 11 percent from January and 2 percent below last February. Only three cities, Decatur, Peoria, and Quincy, reported increases in department store sales in February.

Retail sales in Illinois in 1949 are estimated at \$8.6 million, 2.6 percent under the \$8.8 million record sales in 1948. This is a somewhat larger drop than the decline of 1.5 percent in the nation's retail sales during the same period. Sales in 1949 exceeded 1948 sales in 50 counties. Edwards county led the State with a 13 percent gain. Six other counties reported 1949 sales more than 5 percent above 1948. (See chart.) Declines were recorded for most of the larger industrial areas and also in the principal coal-mining counties. Of the 52 counties that did not top 1948 sales, 33 reported sales off less than 3 percent.

ILLINOIS RETAIL SALES, BY COUNTIES

Percentage Changes 1948 to 1949



Source: Illinois Department of Revenue.

Prices

The index of prices received by Illinois farmers reversed a 4-month downward trend and rose 4 percent to 237 (1910-14 = 100) on mid-February. The gain reflected an increase in livestock and livestock product prices. Prices paid by farmers declined one point. As a result, the parity ratio for Illinois rose to 96 on February 15, five points above mid-January.

Retail prices of living essentials in Chicago in mid-February were at their lowest level since March, 1948. The Chicago consumers' price index on February 15 was 172.0 percent of the 1935-39 average, 0.2 percent less than in January. This third consecutive monthly decline was due to lower prices on food and on some apparel items. In Peoria and Springfield, indexes of retail food prices increased slightly from January 15 to February 15, the first increase recorded in either city in five months.

Construction

Construction activity in the State increased considerably in February. Value of contract awards in February was 68 percent greater than in January and 73 percent above last February. The sharp increase was due to gains in both residential and nonresidential building. Value of construction awards in the State for the first two months of 1950 exceeded the value of awards in the first two months of 1949 by 37 percent.

The valuation of building permits issued in 20 Illinois cities was less than in January. Lower value of permits issued in Chicago accounted for most of the January-February decline in these cities. Five cities, Joliet, Kankakee, Rock Island, Bloomington, and Alton, reported February valuations more than 50 percent above January.

Investment in industrial facilities in the Chicago industrial area totaled \$18 million in March, according to a report by the Chicago Association of Commerce and Industry. Investments in the area for the first quarter of 1950 approximated \$71 million, as compared with \$28 million in the first quarter of 1949 and \$40 million in the first quarter of 1948. Important among the developments during the month was the purchase of 300 acres of land southwest of Joliet by the Caterpillar Tractor Company, which will begin immediate construction of a plant to be used in coordination with its East Peoria plant.

Frank G. Hough Company, manufacturer of excavating and road machinery, started work on the largest of four buildings it is adding to its plant in Libertyville. E. J. Brach & Sons, candy manufacturer, purchased approximately 5 acres of land on which it will construct a multi-story warehouse.

Spencer Kellogg and Sons, Inc., of Decatur, is constructing a \$2 million soybean storage elevator, which will double the company's storage facilities.

Wood River Oil and Refining Company of Hartford recently completed and put into operation a new fluid catalytic cracking unit for producing high octane gasoline.

The Illinois Association of School Boards estimates that approximately \$50 million will be expended for new public school buildings this year. Church and private schools also plan considerable additions to their plants.

The State Highway Division recently received bids for road projects, estimated to cost approximately \$3 million, in Fayette, Gallatin, Jasper, Massac, Pike, Randolph, Richland, St. Clair, Vermilion, and White counties.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES
FEBRUARY, 1950

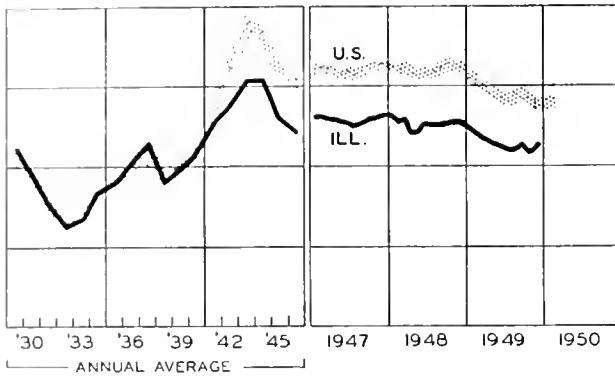
		Manufacturing Employment & Payrolls (Indexes 1935-39 = 100)	Building Permits ¹ (000)	Depart- ment Store Sales ²	Bank Debits ² (000,000)	Postal Receipts ³ (000)
ILLINOIS.....						
		\$12,296^a			\$8,080^a	\$9,903^a
Percentage Change from.....	{ Jan., 1950.....	-37.1	-9.2		-9.5	+0.2
	{ Feb., 1949.....	+12.0	-3.8		+8.2	+1.7
NORTHERN ILLINOIS						
Chicago.....						
		\$9,754			\$7,397	\$8,630
Percentage Change from....	{ Jan., 1950.....	-42.0	-10.1		-9.4	+1.0
	{ Feb., 1949.....	+5.2	-3.6		+9.1	+1.7
Aurora.....						
		\$ 134			\$ 30	\$ 69
Percentage Change from....	{ Jan., 1950.....	+3.1	-15.0		-11.4	+0.6
	{ Feb., 1949.....	+737.5	-3.0		+0.5	+4.1
Elgin.....						
		\$ 161			\$ 20	\$ 68
Percentage Change from....	{ Jan., 1950.....	+23.8	-4.6		-10.2	+15.1
	{ Feb., 1949.....	-55.0	-4.0		+5.8	+17.0
Joliet.....						
		\$ 198			\$ 34	\$ 66
Percentage Change from....	{ Jan., 1950.....	+57.1	-1.6		-4.4	+7.2
	{ Feb., 1949.....	+230.0	-6.3		-2.5	+22.9
Kankakee.....						
		\$ 200			n.a.	\$ 24
Percentage Change from....	{ Jan., 1950.....	+198.5	-13.0			-10.6
	{ Feb., 1949.....	+222.6	+9.8			+3.7
Rock Island-Moline.....						
		\$ 358^b			\$ 25^b	\$ 118
Percentage Change from....	{ Jan., 1950.....	+96.7	n.a.		-9.7	-6.4
	{ Feb., 1949.....	+93.5			-0.6	-4.7
Rockford.....						
		\$ 137			\$ 83	\$ 148
Percentage Change from....	{ Jan., 1950.....	-55.4	-5.2		-5.0	-11.8
	{ Feb., 1949.....	+35.6	-5.5		+2.2	+1.0
CENTRAL ILLINOIS						
The data usually carried in these columns have been discontinued by the original compiling agency. In subsequent issues, new series will be carried in these columns.						
Bloomington.....						
		\$ 303			\$ 35	\$ 77
Percentage Change from....	{ Jan., 1950.....	+96.8	n.a.		-9.0	+13.8
	{ Feb., 1949.....	+2,230.8			0.0	+3.8
Champaign-Urbana.....						
		\$ 132			\$ 35	\$ 85
Percentage Change from....	{ Jan., 1950.....	-60.8	n.a.		-6.1	+11.2
	{ Feb., 1949.....	+153.8			+6.9	+33.3
Danville.....						
		\$ 60			\$ 28	\$ 44
Percentage Change from....	{ Jan., 1950.....	+22.4	-6.8		-11.1	+2.4
	{ Feb., 1949.....	-45.9	-7.7		+4.9	+3.0
Decatur.....						
		\$ 78			\$ 53	\$ 77
Percentage Change from....	{ Jan., 1950.....	-79.2	+6.9		-11.7	-1.6
	{ Feb., 1949.....	+239.1	+1.7		-2.7	+2.7
Galesburg.....						
		\$ 22			n.a.	\$ 25
Percentage Change from....	{ Jan., 1950.....	-26.7	n.a.			-7.6
	{ Feb., 1949.....	-77.3				-6.2
Peoria.....						
		\$ 238			\$ 141	\$ 145
Percentage Change from....	{ Jan., 1950.....	+3.5	+1.2		-12.7	-8.9
	{ Feb., 1949.....	+114.4	-9.6		-4.4	-5.4
Quincy.....						
		\$ 117			\$ 26	\$ 62
Percentage Change from....	{ Jan., 1950.....	-54.3	+6.0		-6.7	-15.9
	{ Feb., 1949.....	+192.5	+1.0		+4.0	+3.4
Springfield.....						
		\$ 162			\$ 61	\$ 173
Percentage Change from....	{ Jan., 1950.....	-20.6	-2.8		-8.6	-17.5
	{ Feb., 1949.....	-49.7	-7.3		-2.4	-9.3
SOUTHERN ILLINOIS						
East St. Louis.....						
		\$ 80			\$ 89	\$ 42
Percentage Change from....	{ Jan., 1950.....	-23.1	n.a.		-13.8	-11.9
	{ Feb., 1949.....	+95.1			-4.2	+0.5
Alton.....						
		\$ 128			\$ 20	\$ 19
Percentage Change from....	{ Jan., 1950.....	+276.5	n.a.		-12.5	-20.1
	{ Feb., 1949.....	+220.0			-5.0	-11.6
Belleville.....						
		\$ 34			n.a.	\$ 31
Percentage Change from....	{ Jan., 1950.....	-2.9	n.a.			+5.4
	{ Feb., 1949.....	-51.4				+12.8

Sources: ¹ U. S. Bureau of Labor Statistics. ² Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ³ Local post office reports.
^a Total for cities listed. February building permit data include Federal construction projects.
^b Moline only.
n.a. Not available.

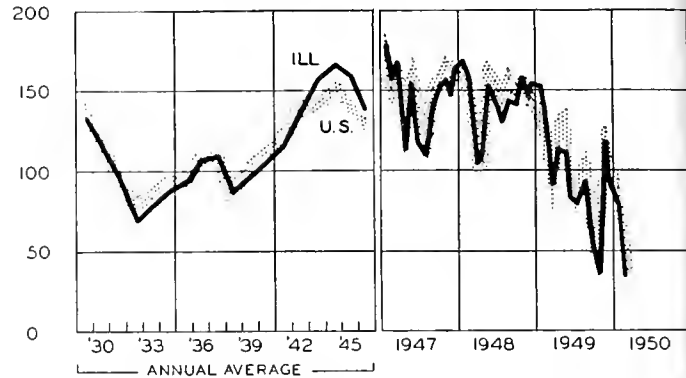
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

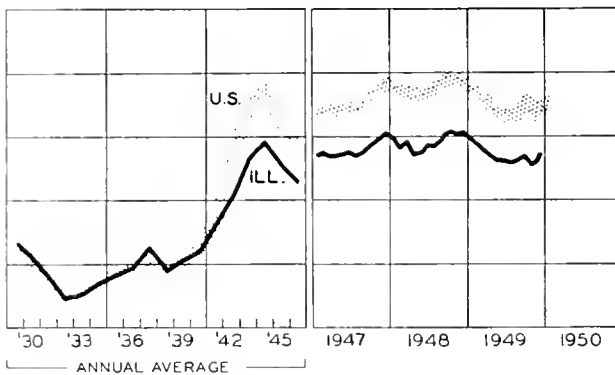
EMPLOYMENT-MANUFACTURING



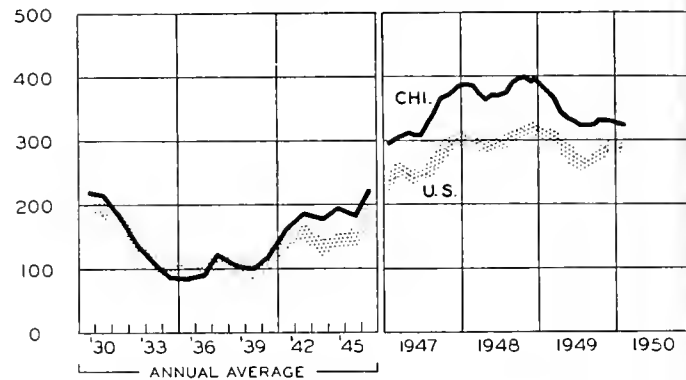
COAL PRODUCTION



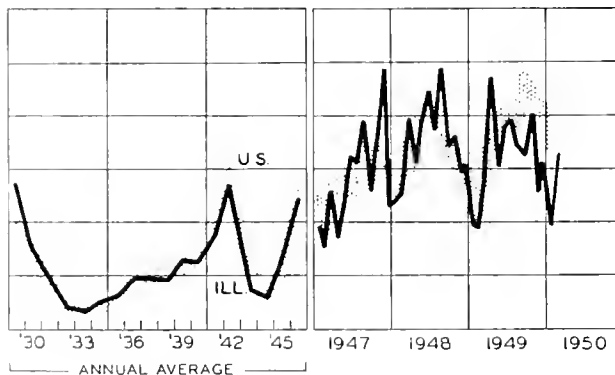
PAYROLLS-MANUFACTURING



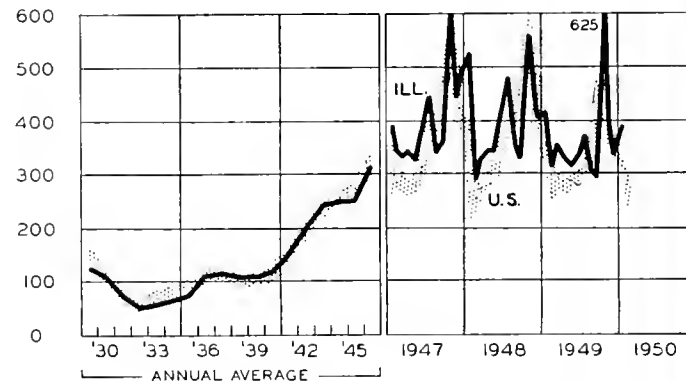
BUSINESS LOANS



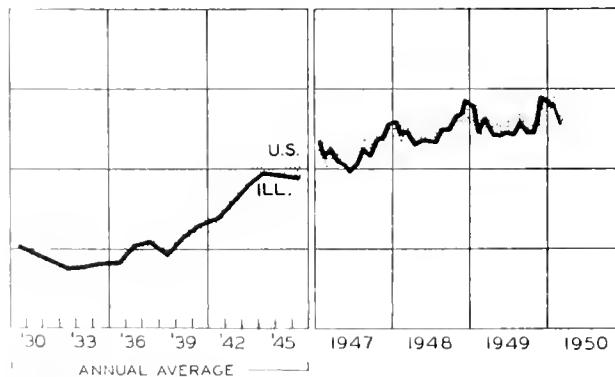
CONSTRUCTION CONTRACTS AWARDED



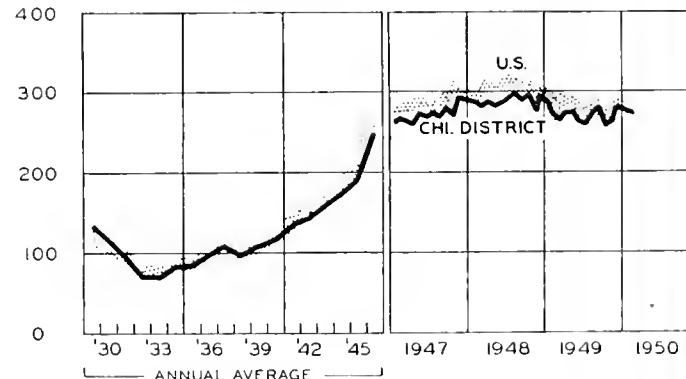
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

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NUMBER 5

HIGHLIGHTS OF BUSINESS IN APRIL

With few exceptions business prospects looked brighter as April came to an end. Preliminary estimates place the Federal Reserve index of industrial production in April at or above the March figure of 186, which would be about 5 percent above the level of industrial output in April, 1949. The durable goods industries are showing continued strength, with steel production running at 100.3 percent of capacity and automobile output at 141,000 units in the last week of the month. Output of minerals and textiles appears to be lagging; and the wintry early spring weather has retarded apparel sales. However, with manufacturers' new orders at a postwar peak (see chart on p. 5) and with the settlement of the Chrysler strike, the industrial production index for May might near the postwar peak of 195 set in October, 1948.

Prices Firm

How far will prices move upward again? Wholesale prices, which had remained more or less steady from last July through this March, rose fractionally every week during April. By the end of the month the Bureau of Labor Statistics wholesale price index stood at 154.3 percent of the 1926 base, 1.5 percent higher than a month ago. Farm and food products led the increase, with live-stock and meat prices up 8 percent. Textiles and chemicals were the only groups to show price declines during the month.

Prices received by farmers improved, rising 1.7 percent during the month ending April 15. Since prices paid by farmers rose only fractionally, the parity ratio advanced one point to 96. Consumer prices also edged upward. In the month ending March 15, the consumer price index rose 0.3 percent, as food prices increased 0.6 percent.

Employment and Income Pick Up

Further improvement in the employment situation was noted in April. The rise in industrial activity, partly seasonal, led to an increase of 1.1 million in the number employed and to a decline of 560,000 in unemployment, as compared with the preceding month. The number of unemployed in April was down to 3.5 million.

There are now 58.7 million employed in civilian occupations, about 900,000 more than in April, 1949. Agricultural employment, at 7.2 million, is 8 percent below last April, largely because of the poor planting conditions pre-

vailing during the early spring. However, the revival of industrial activity and the construction boom have caused nonfarm employment to rise 1.5 million over last April.

Personal income in March rose to an all-time high of \$222.7 billion at an annual rate. The increase was largely due to disbursement of nearly one-third of the scheduled \$2.8 billion of veterans' dividends and to a 1.5 percent rise in wage and salary payments.

Construction Maintains Record Pace

The spring pickup in building activity brought outlays for new construction in April up to \$1.7 billion, a 10 percent increase over March. This is the highest April figure on record and is 24 percent above April, 1949. Private construction amounted to \$1.3 billion, 27 percent more than last April, whereas public outlays were up 16 percent. Residential construction continues to set the pace; as compared with last April, private housing expenditures are up 62 percent and public housing expenditures have risen 79 percent. The only category to lag behind last April's level is private nonresidential, primarily because of a 21 percent slump in industrial building.

As a result of this continued high building activity, construction in 1950 is well on the way toward setting an all-time record. The value of new construction put in place during the first four months of this year is 20 percent above the level of the first four months of 1949, and housing starts are nearly 50 percent above January to April of last year.

Exports and Imports Gain

The upward trend in United States imports was resumed in March. The \$663 million of goods imported during March represents the highest monthly level since December, 1948, and for the fourth successive month imports have exceeded the \$600 million mark. Imports have been rising steadily since last July, and the recent March figure is 20 percent above the March, 1949, level. Imports of petroleum, newsprint, lumber, and sugar have shown the main increases over February.

Exports during March rose to \$867.1 million, largely because of increased shipments of machinery and vehicles and of textiles. However, this is about one-fourth below our exports in March, 1949. As a result, the merchandise balance of trade in March, \$204 million, was less than half the monthly average balance of \$450 million in 1949.

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Cold War—Foreign Aid

The atomic scientists give warning that the hydrogen bomb will increase the destructiveness of war almost beyond measure. They point out that:

1. The atomic bomb was definitely limited in size, but the hydrogen bomb may be enlarged indefinitely.
2. The effects of radioactive poisoning are potentially more deadly than the blast itself. An atomic explosion in a harbor could make a whole city uninhabitable by its activated water spray and tidal wave.
3. A hydrogen bomb encased in a material that remains radioactive for some time could create a cloud of radioactive dust, which, carried by air currents, would endanger populations a thousand miles away.
4. Atomic weapons will eventually work to our disadvantage, because heavy concentrations of population and industry in our large cities make us more vulnerable.
5. A war of long-range attack and retaliation might drag on inconclusively for years; and even if victory were finally won, the victor might be crippled indefinitely.

Disillusion in Foreign Affairs

Along with these warnings, there has been a growth of disillusion in foreign affairs. Will Clayton, former Undersecretary of State, speaking in favor of the Atlantic Union, told the House Foreign Affairs Committee: "The economic burden of fighting the cold war is getting too heavy for the democracies. . . . We must find some less costly road to world peace and we must find it quickly. . . . Stalin is winning the cold war."

Senator Brien McMahon, Chairman of the Atomic Energy Committee, proposed a "peace crusade." He pointed to the necessity of either stopping the atomic armaments race now, or pouring out our substance to stay ahead in that race through a generation of cold war. To reverse the recent trend, he asked for a super-Marshall plan, including all areas of the world, and running to \$10 billion a year for the next five years.

Ex-President Herbert Hoover proposed to break up the United Nations, reorganizing it to exclude the Soviet Union and its satellites, and thus complete the splitting of the world into two hostile camps.

Obviously, the circumstances and objectives of these statements vary greatly. What they have in common is a definite dissatisfaction with the course of events.

The combined effect of disillusionment and fear of

atomic destruction is revealed in increased tension and stepping up of preparedness activities in Washington. The state of mind there is portrayed in a recent report on plans to prepare the public against atomic attack, which included as an item under discussion the proposed abandonment of the humanitarian principle of aiding the most critical cases first, it being considered more important to concentrate on aiding those who have a better chance of survival.

Another important effect is the tendency for many to swing toward the extremes of foreign policy. On the one hand, there is a drift toward isolationism. As events sway people into the cynicism that comes with loss of hopes, many feel we should withdraw from foreign entanglements. But withdrawal into ourselves can, in the end, only leave us in the worst possible condition—isolated in a world that has gone another way.

On the other hand, many who become convinced war is inevitable, and are sufficiently lacking in moral scruples, advocate an immediate, aggressive war to destroy communism—euphemistically describing it as "preventive war." At the same time, others who become convinced that it is now too late to hope for a quick, costless victory, or even a reasonably sure gain, abandon this position. Its adherents remain, therefore, a limited minority who overlook the futility of victory. To the victors go not the spoils, but merely the "privileges" of maintaining an army of occupation abroad and pouring out resources to support a defeated enemy.

There are a few who talk of re-establishing world-wide mechanisms for adjusting international differences, but theirs are the "voices in the wilderness." So few approach the question without bias that the anthropologist Margaret Mead asks why we feel it necessary to advance ulterior motives, like business gain or political advantage, to justify actions that are humanitarian and basically right. Secretary Acheson's statement that "We must keep our purposes perfectly straight, perfectly pure, and perfectly above-board," had so much of the "holier than thou" tone that it was cynically received by observers and commentators both abroad and at home. Yet, the only hope for the avoidance of disaster seems to lie in just such an approach—the only approach that can build relations of living together and ultimately make effective the needed organization of international affairs which the United Nations now so feebly represents.

Balance of Payments Problems

On the economic side, conditions of production and trade in all parts of the world are distorted by the politics of the cold war. Every major country is forced to devote resources to military programs. Each strives to promote self-sufficiency by building facilities and stockpiling materials. Each has less to consume, less to use for expansion, and less to export in exchange for other things it desires.

In this situation, the fact that balance of payments problems are partly political in origin does not make them any less real. The cold war is not only a condition that exists, but one we have helped to create; and in our foreign aid programs we have undertaken to share the burden by supplying needed exports in excess of the quantities for which the recipient countries could otherwise obtain means of payment. This is the essence of the "dollar gap."

There is a school of thought that looks upon the

(Continued on page 8)

ELECTRIC POWER

Although the United States has only about 7 percent of the world's population, its power industry generates almost half as much electricity as the combined total for all other nations. National electric utility production in 1949 reached a high of 291 billion kilowatt-hours, setting a new record for the third successive year.

Illinois is included with Wisconsin, Michigan, Indiana, and Ohio in the East North Central area, which produces more electrical energy than any other region in the nation. Power production in Illinois last year set an all-time high of 18.6 billion kilowatt-hours, about 6 percent of the national output and more than was produced in the entire New England area, where there are 10 percent more people. The State ranked fifth in power production following New York, California, Pennsylvania, and Ohio.

Power utilities in Illinois had a generating capacity of nearly 4 million kilowatts last year, a 9 percent increase over the previous year. Illinois capacity has increased 27 percent since 1945, and another 20 percent increase is expected by 1952.

Last year there were 2.3 million electric utility customers in the State, 1.6 million of them urban. Latest power use data reveal that 54 percent of Illinois power production in 1948 was consumed by manufacturing and industrial concerns; 17 percent went to residential customers; 14 percent was used by commercial enterprises; and about 2 percent went to farmers—percentages very similar to corresponding proportions for the nation.

Illinois Power System

Of the 23 companies in Illinois selling electric power, the 11 largest firms account for approximately 99 percent of total private electric utility production. The Illinois power industry is dominated by Commonwealth Edison and its Illinois subsidiaries, the Public Service Company of Northern Illinois, the Western United Gas and Electric Company, and the Illinois Northern Utilities Company. Together, these firms form one of the three largest private utility systems in the country.

Serving what has been called "the greatest industrial workshop in the world," the Commonwealth Edison system covers an 11,000 square mile area bounded roughly by the northern Illinois state line, Lake Michigan, the Mississippi River, and a line drawn across the State at about the latitude of Pekin. It generated about 60 percent of the electrical energy manufactured in Illinois last year, supplying nearly half of the State's power consumers.

Although downstate Illinois does not have so fully integrated a power system, generating stations are interconnected in strategic groups through transmission lines in practically every part of the State. The largest downstate utility is the Illinois Power Company whose output is about one-sixth that of Commonwealth Edison.

About 97 percent of the electricity generated in Illinois in 1948 came from privately operated plants. This was considerably more than the 80 percent average of private

operation for the nation, the highest proportion of private operation of utilities in the East North Central group.

Only about 2 percent of total Illinois power production in 1948 came from municipal plants. Less than one percent was generated by the 28 electrical cooperatives in the State, but this was only 6 percent of their total distribution, since most of them buy electricity wholesale from private companies. Cooperatives in Illinois are expanding. They had 104,000 farm customers last year, almost as many rural consumers as were served by private utilities.

Sources of Power

Steam turbines, which powered only 70 percent of national capacity in 1948, accounted for more than 98 percent of electric utility capacity in Illinois. Hydroelectric power, responsible for 31 percent of national power production last year, is negligible in Illinois. The plentiful and relatively cheap supply of coal in Illinois tends also to exclude internal combustion engines as a source of power. About 95 percent of the fuel used by Illinois utilities in 1948 was coal, which provided only 76 percent of the fuel nationally used for power.

The consumption of coal for power generation between 1938 and 1948 more than doubled, both in Illinois and in the nation as a whole. Since January, 1949, however, both national and Illinois use of coal for power has been decreasing, even though total power output in the State is rising. The 11 million tons of coal used by Illinois utilities last year totaled about 10 percent less than in 1948.

The increase in Illinois power production last year, therefore, utilized an increasing amount of fuels other than coal. About 800,000 barrels of oil were used to produce power in Illinois in 1949, 170 percent over the 1948 figure. Gas used by Illinois utilities last year increased 130 percent to 30 billion cubic feet. The extent to which these increases were the result of the coal strike, rather than evidence of permanently shifting power sources, remains to be seen.

Output Still Expanding

The number of industrial consumers of power in the United States has increased 40 percent since 1945. Urban residents almost doubled their use of electricity per family in the decade prior to 1949, largely because of the increased popularity of electrical appliances. The percentage of farms with electricity available rose from 45 in 1944 to 85 in 1948.

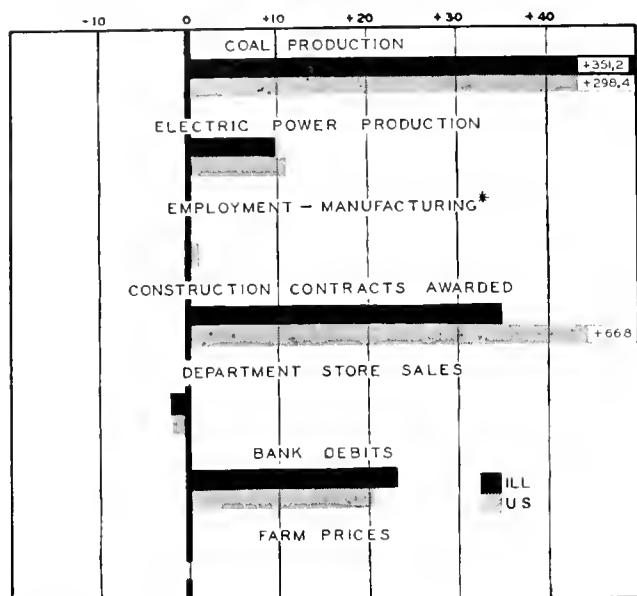
By 1960 the demand for electric power may be almost twice what it was in 1948. A recent Westinghouse study estimates that by 1957 there will have been an over-all increase in national power consumption of 72 percent, with sales to domestic consumers rising by 100 percent, and rural sales up 140 percent.

Such forecasts indicate that electric power, which has already revolutionized almost every phase of everyday life in only fifty years, still has great potentialities for increased industrial and domestic uses.

KNOW YOUR STATE

SELECTED INDICATORS

Percentage Changes February, 1950, to March, 1950



* Figure for Illinois not available.

ILLINOIS BUSINESS INDEXES

Items	March 1950 (1935-39 = 100)	Percentage Change from	
		Feb. 1950	March 1949
Electric power ¹	278.0	+ 9.9	+ 5.8
Coal production ²	137.6	+351.2	+49.9
Employment—manufacturing ³	n.a.	.....	.....
Payrolls—manufacturing ³	n.a.	.....	.....
Dept. store sales in Chicago ⁴	213.7 ^a	- 2.1	- 2.6
Consumer prices in Chicago ⁵	172.9	+ 0.5	- 0.9
Construction contracts awarded ⁶	449.0	+35.0	+53.6
Bank debits ⁷	319.2	+23.2	- 1.5
Farm prices ⁸	212.7	0.0	- 7.4
Life insurance sales (ordinary) ⁹	203.8	+16.6	+ 3.1
Petroleum production ¹⁰	247.0	+10.2	+ 3.4

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor;
⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Coop. Crop Repts.; ⁹ Life Ins. Agency; ¹⁰ Ill. Geol. Survey.

^a Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	March 1950	Percentage Change from	
		Feb. 1950	March 1949
Personal income ¹	222.7 ^a	+ 1.6	+ 5.9
Manufacturing ¹	229.2 ^a	+ 6.1	+ 3.2
Sales.....	31.1 ^{a, b}	0.0	- 9.1
Inventories.....	7.8	+10.2	+54.8
New construction activity ¹	6.1	+ 5.6	- 4.9
Private residential.....	5.0	+36.2	+36.6
Private nonresidential.....	10.4	+12.2	-26.3
Foreign trade ¹	8.0	+10.5	+ 4.7
Merchandise exports.....	2.4	+17.9	-62.5
Merchandise imports.....	18.3 ^b	+ 1.1	+19.5
Excess of exports.....	11.1 ^b	+ 1.9	+31.7
Consumer credit outstanding ²	13.8 ^b	- 0.3	- 7.5
Total credit*.....	20.1	+ 4.9	-11.3
Installment credit.....	186 ^a	+ 2.8	+ 1.1
Business loans ²	212 ^a	+ 2.4	- 4.9
Cash farm income ³	179 ^a	- 0.6	+ 6.5
Indexes (1935-39 = 100)	143 ^a	+21.2	+ 5.1
Industrial production ²	147 ^a	+ 0.8	- 3.0
Combined index.....	106	0.0	+ 1.5
Durable manufactures.....	238	+ 0.4	+ 1.8
Nondurable manufactures.....	252	+ 0.4	+ 3.3
Minerals.....	550	+66.8	+73.9
Manufacturing employment ⁴	274 ^a	- 2.1	- 1.8
Production workers.....	167	+ 0.3	- 1.5
Factory worker earnings ⁴	189	- 0.1	- 3.7
Average hours worked.....	210	+ 0.2	- 7.1
Average hourly earnings.....	197	- 0.8	- 4.5
Average weekly earnings.....	180	+ 0.1	- 3.1
Construction contracts awarded ⁵	221	0.0	- 8.1
Department store sales ²	200	+ 0.8	- 2.0
Consumers' price index ⁴	95 ^a	- 1.0	- 5.9
Wholesale prices ⁴			
All commodities.....			
Farm products.....			
Foods.....			
Other.....			
Farm prices ³			
Received by farmers.....			
Paid by farmers.....			
Parity ratio.....			

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b As of end of month. ^c Based on official indexes, 1910-14 = 100. n.a. Not available. * Data being revised downward.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1950					1949
	Apr. 29	Apr. 22	Apr. 15	Apr. 8	Apr. 1	Apr. 30
Production:						
Bituminous coal (daily avg.).....	1,847	1,863	1,893	1,917	2,171	1,955
Electric power by utilities.....	5,902	5,846	5,863	5,898	5,912	5,304
Motor vehicles (Wards).....	139.7	144.6	140.8	127.7	133.4	129.5
Petroleum (daily avg.).....	4,943	4,957	4,931	4,932	4,807	4,922
Steel.....	214.2	213.5	208.8	206.7	206.5	201.3
Freight carloadings.....	745	723	707	700	720	785
Department store sales.....	283	279	254	320	301	286
Commodity prices, wholesale:						
All commodities.....	153.7	152.2	152.1	152.0	152.1	155.6
Other than farm products and foods.....	146.6	146.1	145.7	145.6	145.6	148.0
28 commodities.....	250.7	248.9	246.8	247.0	246.7	244.7
Finance:						
Business loans.....	13,474	13,574	13,716	13,729	13,790	14,162
Failures, commercial.....	186	188	201	203	198	204

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

More New Houses

Recent BLS data indicate a new strength in the housing boom. The 110,000 new units started in March set an all-time monthly high. Nearly all sections of the country shared in the March record. Even in January and February, seasonally slow months for building, 80,000 new units were started each month, about 30,000 units above the figures for January and February, 1949. The first quarter total of 270,000 new houses started was 50 percent above the previous postwar record of 180,000 units started in the first three months of 1948.

Labor Still Uneasy

The Chrysler strike, which started January 25, ended May 4 with an agreement on pensions and health benefits. Under the new contract, which has a 5-year agreement on pensions and a 3-year agreement on wages and other items, Chrysler workers reaching 65 after 25 years' employment with the company will receive a pension of \$100 a month, including social security benefits. In addition, small wage increases, higher vacation pay, a checkoff of union dues, and improved grievance procedures were granted.

No important new strikes started in April, but the labor situation remained unsettled. Strikes were threatened against four big railroad systems by the firemen's brotherhood, but were postponed until May 10 when the strike call actually went into effect. A walkout of 10,000 telephone installation workers threatened a widespread tie-up of communications but fizzled out at the end of the week, with no positive settlement made and a full-scale strike still pending. A brief flurry of acute uncertainty occurred in maritime shipping over hiring and job security standards for deck officers but was settled by agreement late in April.

Further improvement in employment was shown in April, as the number of job-holders rose by more than a million workers. This is the highest employment level since last November. The increase was about evenly divided between agricultural and nonagricultural work. There was a substantial decrease, 608,000, in unemployment as spring farm work and other seasonal industries picked up. Bureau of Census data, in thousands of workers, are as follows:

	April 1950	March 1950	April 1949
Civilian labor force.....	62,183	61,675	60,835
Employment.....	58,668	57,551	57,819
Agricultural.....	7,195	6,675	7,820
Nonagricultural.....	51,473	50,877	49,999
Unemployment.....	3,515	4,123	3,016

Department Store Sales Show Gains

April turned out to be better than expected for department store sales. Despite earlier pre-Easter sales lags, the Federal Reserve Board's seasonally adjusted index for the month was estimated at 289 percent of the 1935-39 average. The 15-point rise from March's 274 was in line with the rise from March to April, 1949, and brought the index to a point just a little under the April, 1949, level.

Retail sales for March were about 4 percent over the previous year, totaling \$10.9 billion. After seasonal adjustment, total retail sales amounted to \$11.0 billion, down 0.7 percent from February but nearly 3 percent above March,

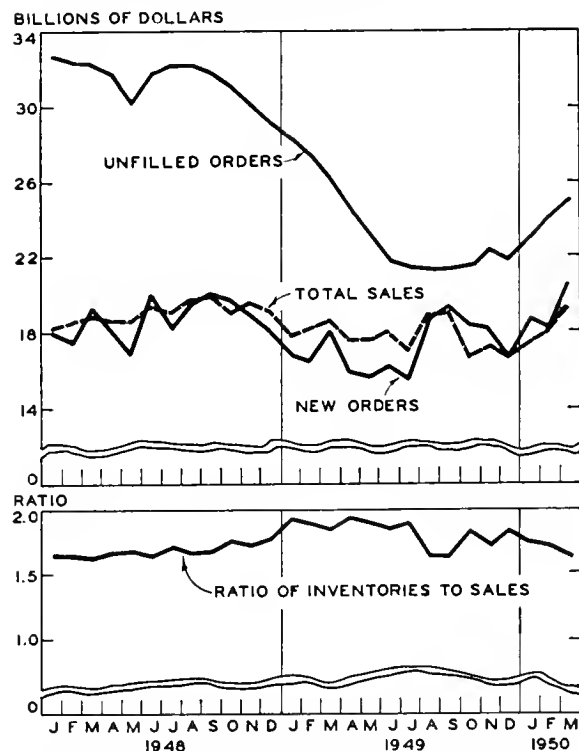
1949. A 2.2 percent drop in durable goods sales during March, caused largely by lower automobile sales, was the chief cause of the decline in total sales; nondurables sales remained fairly steady.

Manufacturers' Sales Continue Rise

Manufacturers' sales during March showed a substantial gain over February, rising \$1.1 billion to a total of \$19.1 billion after seasonal adjustment. As shown in the accompanying chart, the increase raised the level of sales to a point even with that of December, 1948, and about 4 percent below the September, 1948, peak. With wholesale prices of manufactured goods down about 9 percent since September, 1948, the volume of sales is now apparently somewhat greater than at the peak of dollar value of sales. New orders have shown an even greater recovery than sales and now stand at a postwar peak of \$20.6 billion, \$600 million above the previous postwar high. Unfilled orders are likewise rising, amounting to \$24.9 billion in March, substantially above the low of \$21.4 billion seven months previously.

The ratio of inventories to sales, moving inversely with sales, fell in March to the lowest level in more than two years, with inventories a little more than 160 percent of sales. The rise in sales during March was about evenly divided between durables and nondurables; but new orders showed considerably more strength in durable lines. Inventory values remained the same in total; a slight decline in nondurables inventories to \$17.1 billion was just offset by a rise in durable stocks to \$14.0 billion.

MANUFACTURERS' SALES, ORDERS, AND INVENTORIES



Source: U. S. Dept. of Commerce, Office of Business Economics.

FOREIGN TRADE AND THE DOLLAR GAP

BERT F. HOSELITZ, Director of Studies

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The United States has often emphasized its devotion to the principle of nondiscriminatory, multilateral international trade. A hundred years ago this position would have been taken for granted, but we have learned in the meantime that the efficient operation of such a trading system is contingent upon the maintenance of high-level demand in the major countries and the achievement of quasi-automatic flexibility in the balance of payments. In the nineteenth century these two conditions were tacitly accepted, because fluctuations in demand for internationally traded goods were assumed to be negligible, and the mechanism for adjustment of the balance of payments of any one country was safeguarded by the international gold standard.

There are still people today who hold this view, and it can be found even in some of our economics texts. But what might have been regarded as an adequate description of reality more than a generation ago does not serve well as a guide for policy today. We know that trade fluctuates widely with changes in effective demand, which in turn depends primarily on the level of employment. Thus, an effective full employment policy in the United States is of greater importance for world prosperity than a similar condition in any other part of the world. This is one instance in which enlightened self-interest accrues to the benefit of all.

One pillar supporting the American objective of multilateral world trade is thus grounded on measures falling essentially into the realm of domestic economic policy. The other is based on efforts involving some degree of co-operation with other countries. In view of the current unemployment in this country there may be room for

debate about the success of our domestic full employment policy; but there is little doubt that attempts to adjust the balances of payments of the various countries to each other have so far been unsuccessful.

This lack of success is expressed by the continued existence of the so-called dollar shortage or dollar gap. This gap is portrayed on Chart 1 by the large net exports of goods and services, which make up the bulk of our dollar receipts. The corresponding bars to the right show that these exports have been financed mainly by unilateral transfers and capital movements, which in turn consisted largely of government grants and loans.

The Dollar Shortage

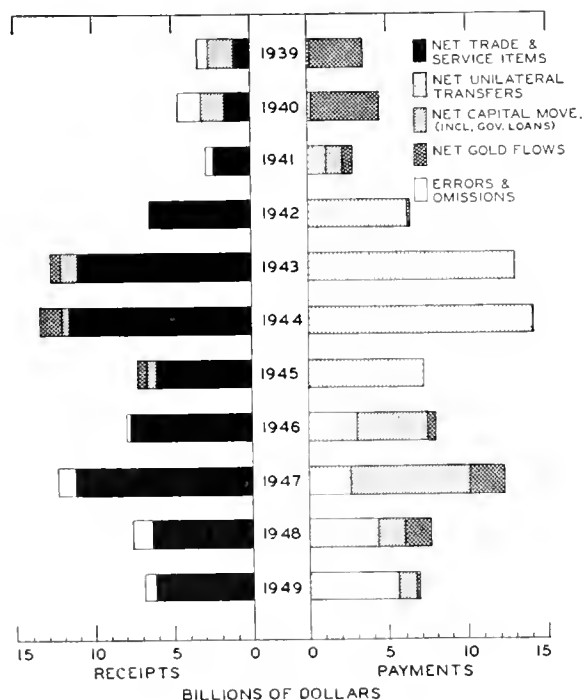
In what follows we shall attempt to analyze the root of the imbalance and discuss proposed means of closing the gap. That this problem is of eminent current significance is evidenced by President Truman's appointment of Mr. Gordon Gray on March 31, 1950, to help "mobilize the resources of the Government and the experience and thinking of our people" in finding a solution for the world dollar shortage.

The discussion about the nature of the dollar shortage moves between two extremes. On the one hand it is asserted, notably by representatives of classical nineteenth century liberalism, that a real dollar shortage does not and can not exist, if the price of dollars is allowed to move and especially to rise freely. If there were a free market for dollars and other currencies, the price of dollars in terms of foreign money would rise until the supply of and demand for dollars would be in equilibrium. In practice this school advocates, therefore, essentially a devaluation of foreign — notably European — currencies to a level where the dollar gap may be expected to disappear. But appreciation of the dollar does not necessarily lead to a disappearance of the dollar gap. In fact, as we shall see later, it may make the world dollar problem more serious.

The partisans of the other extreme position on the nature of the dollar shortage flatly deny that the dollar problem is one of the price of American currency in terms of foreign money. On the contrary, they maintain that the dollar problem is the consequence of basic changes in the structure of the world economy, which occurred mainly as a consequence of World War II. These changes have tended to make the United States more self-sufficient and American costs more elastic, so that in many cases this country can meet an extension of demand from domestic production with little or no price increase. In contrast, European countries, in order to expand exports to the United States significantly, would have to reduce costs to such a low level as to make this alternative unreconcilable with traditional European living standards. Therefore, they conclude, the United States will not be able to balance its international accounts within the foreseeable future except by continued foreign lending or foreign aid.

Both of these two extreme positions are probably untenable. The first is based on more "respectable" economic theory than the second, but the proposal for devaluing European currencies is in practice an insufficient measure to close the dollar gap, unless devaluation were driven so far that it would be suicidal for European govern-

Chart 1. U. S. BALANCE OF PAYMENTS



Source: U. S. Dept. of Commerce.

ments, and thus unacceptable for political reasons. Six months after the recent devaluation of the pound sterling, prices of British imports had risen by 14 percent, whereas prices of British exports had risen only by 2 percent. Each purchase, therefore, costs Britain more; and this fact is of no mean importance if one considers that the bulk of British imports consists of food and vital industrial raw materials.

Most other countries are in a position not too different from that of Britain, since the goods they buy from the United States are usually designed to maintain or raise living standards, such as, for example, new productive equipment. Purchases of American commodities are thus vital to the economic advancement of these countries, and devaluation can neither meet nor reduce their needs. Chart 2 shows the large increases in our exports to all areas except the Soviet bloc, where they have been artificially restricted by export controls. Even the main former dollar-earning area, South Asia, has become a dollar-deficit area.

The likelihood that devaluation will lead to equilibrium is even less if the demand for imports in the United States is inelastic; for, in this case, the devaluing country acquires a smaller amount of dollars for a larger quantity of exports than before the devaluation.

Reliable data on elasticities of demand for various American imports are not available, but it is very probable that only imports which compete with similar American products could earn more dollars through devaluation. The reason for this is that if competitive foreign goods were sold at lower prices they would capture part of the market now held by domestic products. But it is clear that the threat of large-scale competition from foreign commodities would provoke demands for protection by the affected industries.

Tariffs Prevent Adjustment

Thus devaluation, if it is to be effective, can—and probably will—be countered by increased tariffs or other

import controls. We might then have successive rounds of devaluation abroad and increased trade impediments at home. The successive rounds of wage and price increases in the past few years illustrate this pattern. Equilibrium can only be reached if the vicious circle is broken at some point. There is little doubt that the only practical measure that might initiate the movement toward international equilibrium is a drastic lowering of the American tariff; this means again that a solution of the dollar gap cannot be brought about by foreign countries alone, but requires the active participation of the United States.

In this connection two comments are in order. The first is directed against those who hold that the United States has already lowered its duties to the lowest possible level. The second comment is directed against the opposite camp, who hold that the United States plays now the role which Britain played a hundred years ago in international commerce and should, therefore, unilaterally attempt the introduction of free trade.

With regard to the first point, it is admitted that the United States has lowered its duties under the reciprocal trade agreements program. However, the original rates were uncommonly high; many concessions by the United States did not result in an actual lowering of duties, but in binding existing rates or binding goods on the free list; and the tariffs on commodities that compete actively with similar American products have been lowered only rarely and then very little. But it is precisely the latter commodities, as we have seen, which must be admitted on favorable terms in order to make the greatest contribution towards closing the dollar gap.

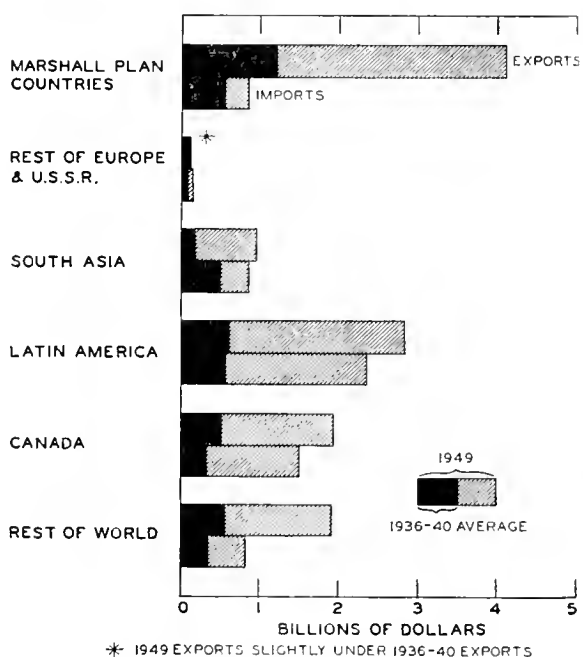
With regard to the second point, it must be stressed that the similarities to Britain's role in the nineteenth century are only superficial. There are as many, if not more, basic differences in the roles of the two countries in the two periods than there are similarities. Britain's import needs, notably in foodstuffs and raw materials, were always greater, more varied, and more intensive than those of the United States. The growth of technical and scientific knowledge in the last hundred years has provided means of producing substitutes from domestic materials which greatly diminish our dependence on foreign sources of supplies. Moreover, the large size of this country and the resulting high transportation cost have been, and continue to be, a natural protective barrier against imports. The bulk of American families living inland have developed consumption patterns and cultural standards whose wide acceptance leaves only a limited clientele with a demand for genuinely foreign goods.

But the differences between nineteenth century Britain and twentieth century America are not confined to the composition and relative weight of commodity imports. The characteristic feature of a creditor country is not only a commodity import surplus but an export surplus of private capital. British investors fulfilled this function successfully in the nineteenth century, because there were numerous attractive outlets for the capital exports, not only within the British empire, but also in independent countries. The present-day situation in the field of private capital export stands in stark contrast to the economic climate of the nineteenth century. It is probably no exaggeration to assert that capital export has never been so unattractive as in 1950.

United States Capital Exports

American investors have been charged with lacking venturesomeness, but this accusation is questionable.

Chart 2. DIRECTION OF U. S. FOREIGN TRADE



Source: U. S. Dept. of Commerce.

Countries that are economically underdeveloped and need to learn modern production techniques still seem to need no instruction in the use of legal procedures which deter foreign investment. High and sometimes discriminatory taxation, exchange controls, political pressures, expropriation, and other measures that can be practiced within limitations, so as not to invite retaliation, have been developed to a high degree in many countries that were traditional recipients of private foreign investment. From their own standpoint, the governments of those countries have pointed to the excesses of unbridled "economic imperialism," and to their role as guardians of the welfare of their own people. Whatever the intrinsic merits of the case, the result has been a relative stagnation of American private investment abroad.

The major policy measure designed to cope with the problem of foreign investment is the Point Four program. Under the heading of technical aid to underdeveloped countries, Congress has discussed bills according to which the United States government would guarantee certain foreign investments against risks which they might encounter. These bills provide also for the negotiation of treaties with developing countries to safeguard American investment and to prohibit discriminatory treatment. Skillful negotiation and generous guarantees might help

to narrow the dollar gap by increasing American capital exports. If the investment loans are tied, that is, if the recipients are obliged to purchase equipment in the United States, the closing of the dollar gap all around is less likely than if the developing countries are free to spend the dollars loaned them in the cheapest market, in which case our exports would go to still another country. In this way multilateral trade patterns may again develop.

From the foregoing, it appears that closing the dollar gap depends largely on American policy. The most decisive and notable contribution this country could make would be the maintenance of high-level domestic employment, the lowering of American trade barriers, chiefly on competitive imports, and the extension of generous private or government loans to foreign countries. The latter should preferably be extended through the International Bank for Reconstruction and Development or the United Nations, so as to ensure that the loans are not tied. Foreign countries can contribute to the same result if they adopt policies designed to reduce their dependence on purchases from the dollar area. But all these measures stand and fall together. The alternatives for the United States may be either to continue foreign aid programs, or to risk the economic and perhaps political collapse of a large part of the world.

Cold War — Foreign Aid

(Continued from page 2)

dollar gap as a purely temporary condition — the counterpart of our foreign aid programs, and therefore one that will tend to disappear as soon as those programs are ended. For, "those who have no money cannot buy." Poor countries, like poor men, cannot expect for long to spend more than their meager incomes. But no such superficial account can alter the fact that these people do have real needs which perforce go unsatisfied; or that they must look to friends and neighbors for help in hard times. Today, practically the only country with the capacity to produce in excess of its own needs is the United States. This does not mean that we are obliged to keep the rest of the world living beyond their incomes indefinitely. It does mean that we are the country to which they must look for the capital needed to accelerate their own progress toward higher production.

Throughout the world peoples are aspiring to a higher plane of economic welfare and security. In this country, the same aspiration was reflected in the passage of the Full Employment Act. Most countries, like ourselves, also insist upon freedom of action as an assurance that they may continue to move forward. In many cases, progress to date has been encouraging. In Europe, most countries have already exceeded prewar peaks of production; and by the end of the Marshall Plan there seems likely to be no problem of over-all production but merely disturbing imbalances as between industries. In other parts of the world the processes of development are of necessity slower, but the possibilities of ultimate achievement are no less sure. The flow of American capital in support of this progress could legitimately continue not for just half a decade, but for half a century.

The special article in this issue discusses problems that have to be faced in re-establishing conditions for stable international trade and finance. It also points to obstacles in the way of private American capital exports, and to the contributions that President Truman's "Point Four" program can make toward removing them. Whether any

such program can be fully effective in the atmosphere of uncertainty and tension created by the cold war is doubtful.

We may as well recognize that the foreign aid program itself may fail. The fact that our motives are mixed, that we are not only aiding other countries, but buying their support, creates a situation in which suspicion and mistrust inevitably limit cooperation. The recipient countries may be sincerely grateful for the assistance, but they fear to attach themselves too closely to us — politically, because they might be left "holding the bag," and economically, because of the possibility that we might drag them down with us into the depths of the next depression. Thus, we cannot be sure all of them will wind up as close friends as we hope. But to abandon the venture at this point would be merely exchanging a possibility of failure for certainty of it.

As things stand, there seems little prospect that our export balance will completely disappear in the foreseeable future. So long as we have allies in the cold war, there will be grants and loans to make them strong; and even aside from considerations of security, there is likely to be a moderate flow of American capital into foreign enterprises — a natural flow that will accelerate if the cold war wanes. In addition, newly mined foreign gold will continue to flow into our reserves, acquiring real value as it is exchanged for American goods.

In the years ahead, the adjustment of world economies will at best be an uneasy one, fluctuating with each shift in world politics and with each swing of the business cycle. A dilemma arises from the fact that we have built up our military programs to the point where their curtailment would, if uncompensated, produce a serious letdown. Preventing this is not beyond the possibilities, but it unquestionably presents serious difficulties.

Even less promising are the prospects of arriving at a peaceful settlement of the cold war. This, however, would seem to be the more important goal; for we can still live well if our income drops somewhat below the full employment level, but we may not live at all if the forces of the atom are loosed upon us.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

New Porcelain Enamel

Low-temperature porcelain enamels are increasing the usefulness of porcelain coatings by reducing warpage and permitting the use of lighter gauge steel and perhaps even aluminum. Titanium-bearing steels, as well as those containing molybdenum and nickel, permit the application of porcelain enamels without the customary undercoat to insure bonding. Essentially a finely powdered glass, porcelain enamel can be fused to almost any kind of steel, but steel containing titanium allows quicker and more economical bonding. Westinghouse has been using single-coat titanium sheet on its range tops for the past two years and is now starting to use it on the entire range.

Labor Security

In an average week in 1948 about 3.4 million people were working at jobs not covered by unemployment insurance protection, because their employers had fewer than 8 workers. A large number of additional workers had less benefit than they would otherwise have had because at some time during the year they had worked for a small establishment. The United States Department of Labor in the March issue of *The Labor Market* estimates that complete elimination of restrictions on size of firm would increase the number of workers covered by unemployment insurance 11 percent for the country as a whole. In 8 states it would increase the coverage by 25 percent or more. The article points out that there is no need for any state to wait for Federal action on the problem. Five states have already eliminated requirements as to size of firm and length of employment, and more than half of the states cover firms too small to be subject to the Federal tax.

Preliminary reports indicate that fewer workers were injured in on-the-job accidents during 1949 than in any year since 1939. "Work Injuries in 1949," an article in the March issue of the *Monthly Labor Review*, estimates that disabling work injuries last year totaled 1,870,000, about 7 percent less than the 1948 figure. The major part of the decrease was said to be the result of improved safety conditions in many industries, with greatest reductions in injury volume occurring in mining, manufacturing, and railroading. Fatalities decreased by 6 percent to 15,000, and permanent total disabilities were down 11 percent. Temporary total disabilities, which accounted for 94 percent of all injuries, decreased by 7 percent.

Internal Migration

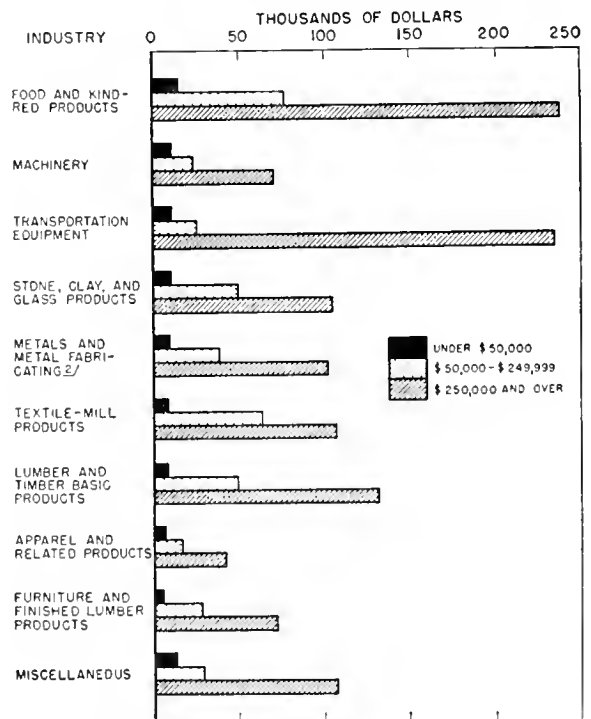
In April, 1949, about 28 million persons, or one out of every five Americans, were living in a different house from the one they had lived in a year earlier. Of these, 19 million had moved within a county, 4 million had changed counties within a state, 4 million had moved from one state to another, and half a million had been living abroad a year earlier. The Bureau of the Census Current Population Report on *Internal Migration in the United States: April, 1948 to April, 1949* shows a slight decline in migration during the twelve months ending April, 1949, as compared with the year ending April, 1948. Nonwhite migration was somewhat less, and over shorter distances, than white, and the migrant rate was higher for rural than for urban areas.

Manufacturers' Capital Requirements

Between 1946 and 1948 there were 166,000 new manufacturing firms established in the United States. "Capital Requirements of New Manufacturing Firms," an article in the April *Survey of Current Business*, revealed that 59 percent of the \$2 billion in capital required by the new firms during the three-year period was met by equity capital investments from accumulated savings. Another 7 percent was equity capital from other sources, and the remaining 34 percent was debt financing, less than 1 percent coming from bond sales. The proportion of equity capital to total investment funds declined and debt financing increased with increasing firm size.

As shown by the chart, the highest initial investments occurred in the food products and transportation industries. However, the chart does not give a good impression of the average total investments because of the varied sizes of firms in different industries. The many small firms in the food industry make its combined investment second to that of the textile mills. Although the latter led in average investment because of the many large firms in the industry, they had only 6 percent of the total capital required by all new manufacturing firms. The foods, apparel, metals, machinery, and stone, clay, and glass industries each had from 6 to 9 percent of the over-all investment. Lumber products, with the lowest average investment of any major industry because three-fifths of its firms were without employees, accounted for almost 25 percent of the total investment and 45 percent of the total number of new manufacturers.

AVERAGE INITIAL INVESTMENT OF MANUFACTURING FIRMS: 1946-1948
(Grouped according to sales in 1948)



U.S. DEPARTMENT OF COMMERCE, OFFICE OF BUSINESS ECONOMICS

50-129

LOCAL ILLINOIS DEVELOPMENTS

Strong gains were registered in most sectors of Illinois business in March, as the State recovered quickly from the effects of the coal strike. For the first time since February, 1949, coal production reached five million tons. Power production, rebounding to the January level of 1.7 billion kilowatt-hours, was at a new high for the month of March. Petroleum production averaged 179 thousand barrels per day, the same as in January and February. March department store sales, bank debits, and postal receipts in reporting Illinois cities were up more than 20 percent from the February levels.

Continued Boom in Construction

Construction activity in the State continued at an accelerated rate. Contracts awarded in March aggregated \$75 million, \$3 million under the all-time March high of 1942. The greatest gain was recorded in residential building. Contracts for residential building in the first quarter of this year were 90 percent greater than in the first quarter of 1949 and 74 percent above the same period in 1948.

The value of building permits issued in 20 Illinois cities in the first quarter of 1950 was 50 percent greater than for the same period last year. Five cities, Aurora, Bloomington, Decatur, Quincy, and Rockford had a more than twofold increase over the first quarter, 1949. (See

chart). In the Champaign-Urbana area, contracts for more than \$2 million were awarded in March for building projects at the University of Illinois.

Investment in industrial developments in the Chicago area in April totaled \$36 million, boosting the figure for the first four months of the year to \$107 million. This was a greater amount than was spent for similar developments in the area during all of 1949. Extensive additions to four large steel mills are included in the April total. Carnegie-Illinois Steel Corporation is further expanding its facilities in Gary. Youngstown Sheet and Tube Company, now operating a plant in South Chicago and another in East Chicago, has scheduled a new pipe mill and other improvements for this year, which will complete the company's multimillion-dollar expansion program.

Construction on a number of warehouses was started in the Chicago area in April. The Bigelow-Sanford Carpet Company's warehouse will contain 110,000 sq. ft. of floor area. Puritan Company of America, processor of fruit juices and food products, is erecting a new warehouse and a warehouse and office building is being constructed for Certified Grocers of America, Inc., in Stickney Township.

Lake-River Terminals, Inc., has started construction of a large canning and drumming plant in Chicago. J. W. Johnson Company, manufacturer of canvas products, has started construction of a new factory at Bellwood, Illinois. A new factory building is being constructed in Skokie for the Rock Tred Corporation, producers of floor surfacing materials, caulking and sealing compounds, and paints.

Manufacturing Employment

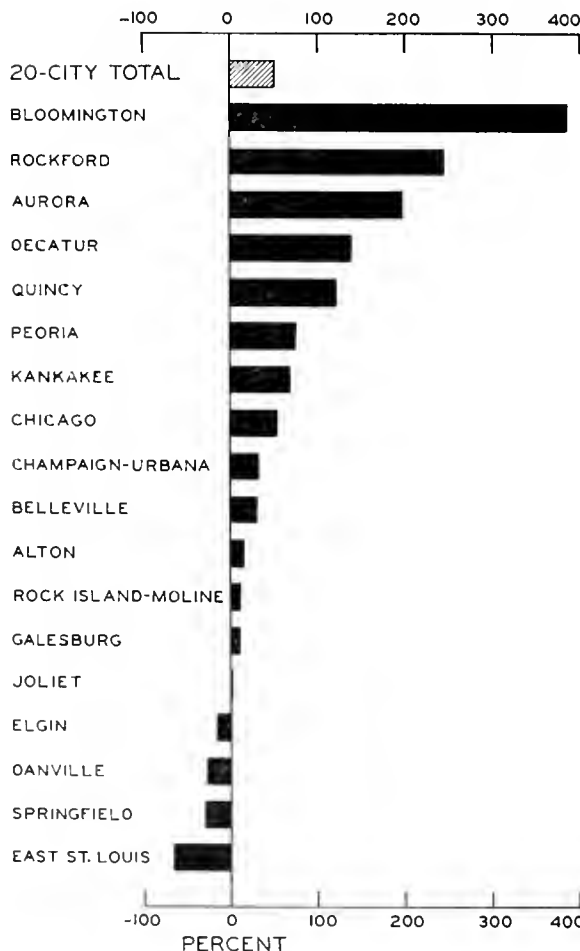
Manufacturing employment in the State remained steady at about 1,118,200 in February though total non-agricultural employment declined. Estimates of manufacturing employment for March are not available at this time. However, reports from selected local labor market areas indicated some gain in employment in the primary and fabricated metals and machinery manufacturing industries. Areas reporting largest gains were: Decatur, Elgin, Joliet, Kankakee, Peoria-Pekin, Quincy, and Springfield.

Prices

In mid-March, the Chicago consumers' price index was 172.9 percent of the 1935-39 average, up 0.5 percent from February. The increase was due primarily to an advance in food prices. Food prices in Peoria also increased slightly during the period. Peoria's index of retail food prices on March 15 was 208.2 percent of the 1935-39 average, up 0.6 percent. The Springfield retail food price index remained unchanged at 201.5 percent of the 1935-39 average.

The over-all index of prices received by Illinois farmers, after holding steady at 237 (1910-1914 = 100) from February to March, rose three points from March to April, and on April 15 stood at 240. The increase in the index of prices received was due entirely to higher crop prices, as livestock and livestock products prices showed a slight decline. The index of prices paid by farmers in the nation as a whole was 251, up one point from March 15. As a result, the Illinois parity ratio was 96, as compared with 95 on March 15. The parity ratio for the State is now the same as that for the nation.

VALUATION OF BUILDING PERMITS
Percent change 1st qtr. 1949 to 1st qtr. 1950



Source: U. S. Bureau of Labor Statistics.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES
MARCH, 1950

	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS	\$25,276	758,144^a	\$410,811^a		\$9,951^a	\$12,013^a
Percentage Change from... {Feb., 1950...}	+105.6	-2.4	-0.7	+27.8	+23.2	+21.3
{Mar., 1949...}	+48.1	-1.1	n.a.	-1.0	-15.3	+2.6
NORTHERN ILLINOIS						
Chicago	\$17,886	624,477	\$311,438		\$9,112	\$10,528
Percentage Change from... {Feb., 1950...}	+83.4	-2.5	-0.4	+26.5	+23.2	+22.0
{Mar., 1949...}	+58.1	-1.9	n.a.	-0.5	-1.8	+2.7
Aurora	\$ 516	n.a.	\$5,276		\$ 34	\$ 82
Percentage Change from... {Feb., 1950...}	+285.1		-4.4	+43.8	+15.2	+19.5
{Mar., 1949...}	+232.9		n.a.	+0.8	-2.3	+8.0
Elgin	\$ 174	n.a.	\$3,741		\$ 24	\$ 82
Percentage Change from... {Feb., 1950...}	+8.1		0.0	+39.2	+17.0	+19.5
{Mar., 1949...}	+33.8		n.a.	+7.1	+1.6	+25.1
Joliet	\$ 291	n.a.	\$6,805		\$ 40	\$ 61
Percentage Change from... {Feb., 1950...}	+47.0		+0.7	+37.3	+17.2	-8.0
{Mar., 1949...}	+10.2		n.a.	-9.4	-3.0	-9.4
Kankakee	\$ 319	n.a.	\$3,201		n.a.	\$ 29
Percentage Change from... {Feb., 1950...}	+59.5		-8.8	+41.9		+17.7
{Mar., 1949...}	+71.5		n.a.	+11.2		+8.4
Rock Island-Moline	\$ 465	16,156	\$7,241		\$ 31^b	\$ 135
Percentage Change from... {Feb., 1950...}	+29.9	+1.9	+1.6	n.a.	+26.5	+15.3
{Mar., 1949...}	+2.9	+0.1	n.a.		+19.3	+8.1
Rockford	\$1,853	20,481	\$10,976		\$ 107	\$ 181
Percentage Change from... {Feb., 1950...}	+1,252.6	-5.7	-2.6	+40.5	+28.0	+22.2
{Mar., 1949...}	+409.1	+2.0	n.a.	-2.2	+4.7	+2.5
CENTRAL ILLINOIS						
Bloomington	\$ 227	4,250	\$4,003		\$ 43	\$ 81
Percentage Change from... {Feb., 1950...}	-25.1	-5.3	-0.7	n.a.	+21.8	+6.3
{Mar., 1949...}	+77.3	+12.6	n.a.		-0.4	-4.9
Champaign-Urbana	\$ 345	6,982	\$5,541		\$ 43	\$ 92
Percentage Change from... {Feb., 1950...}	+161.4	-4.5	-0.3	n.a.	+22.2	+8.9
{Mar., 1949...}	+85.5	+11.7	n.a.		+6.7	+17.6
Danville	\$ 199	6,407	\$4,120		\$ 34	\$ 53
Percentage Change from... {Feb., 1950...}	+231.7	-3.7	-5.3	+43.9	+20.1	+19.8
{Mar., 1949...}	+11.2	+18.9	n.a.	-5.5	+4.7	+7.3
Decatur	\$ 557	13,196	\$6,715		\$ 73	\$ 85
Percentage Change from... {Feb., 1950...}	+605.1	-1.0	-0.3	+31.4	+36.9	+10.9
{Mar., 1949...}	+68.8	+2.9	n.a.	-2.6	+11.7	-1.0
Galesburg	\$ 226	4,501	\$2,830		n.a.	\$ 28
Percentage Change from... {Feb., 1950...}	+927.3	-3.2	-3.6	n.a.		+14.3
{Mar., 1949...}	+52.7	-3.9	n.a.			-1.4
Peoria	\$ 818	39,041^c	\$12,803		\$ 170	\$ 183
Percentage Change from... {Feb., 1950...}	+243.7	+0.9	-3.8	+28.5	+20.7	+26.1
{Mar., 1949...}	+51.5	+3.3	n.a.	-5.4	-1.8	+2.3
Quincy	\$ 212	n.a.	\$3,631		\$ 30	\$ 69
Percentage Change from... {Feb., 1950...}	+81.2		-2.6	+30.0	+14.1	+11.3
{Mar., 1949...}	+30.9		n.a.	-1.0	-0.7	+3.1
Springfield	\$ 360	18,682^c	\$9,239		\$ 77	\$ 221
Percentage Change from... {Feb., 1950...}	+122.2	-5.0	-3.2	+36.0	+25.9	+27.6
{Mar., 1949...}	-35.3	-2.6	n.a.	-10.8	+0.5	-10.0
SOUTHERN ILLINOIS						
East St. Louis	\$ 388	n.a.	\$6,618		\$ 107	\$ 46
Percentage Change from... {Feb., 1950...}	+385.0		+2.7	n.a.	+19.1	+11.7
{Mar., 1949...}	-72.6		n.a.		-6.7	-0.2
Alton	\$ 267	n.a.	\$3,520		\$ 26	\$ 26
Percentage Change from... {Feb., 1950...}	+108.6		-1.4	n.a.	+20.6	+34.9
{Mar., 1949...}	+39.8		n.a.		+5.2	+12.9
Belleville	\$ 173	3,971	\$3,114		n.a.	\$ 29
Percentage Change from... {Feb., 1950...}	+408.8	-0.1	-1.2	n.a.		-4.4
{Mar., 1949...}	+179.0	+12.5	n.a.			-2.5

Sources: ¹U. S. Bureau of Labor Statistics. Data include Federal construction projects. ²Local power companies. ³Illinois Department of Revenue. Data are for February, 1950, the most recent available. Comparisons relate to January, 1950. ⁴Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵Local post office reports.

^a Total for cities listed.

^b Moline only.

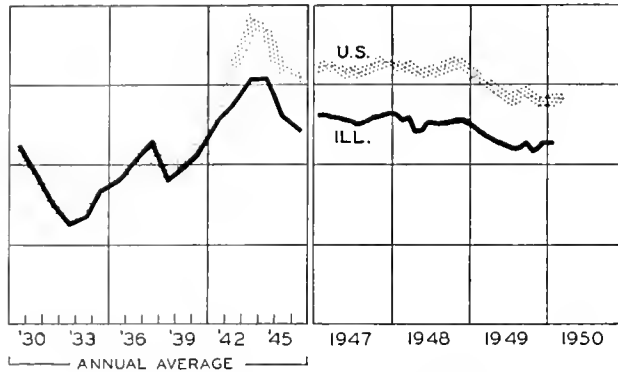
^c Includes immediately surrounding territory.

n.a. Not available.

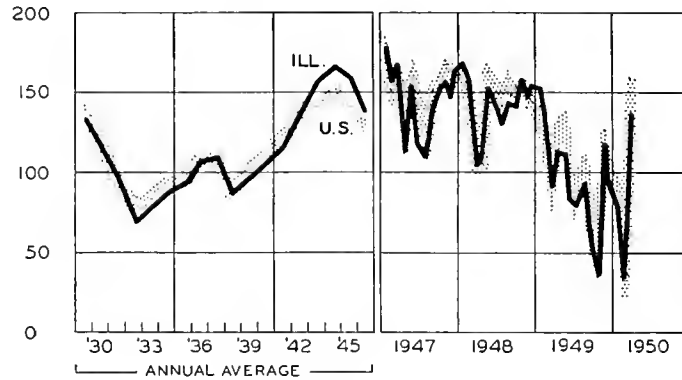
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

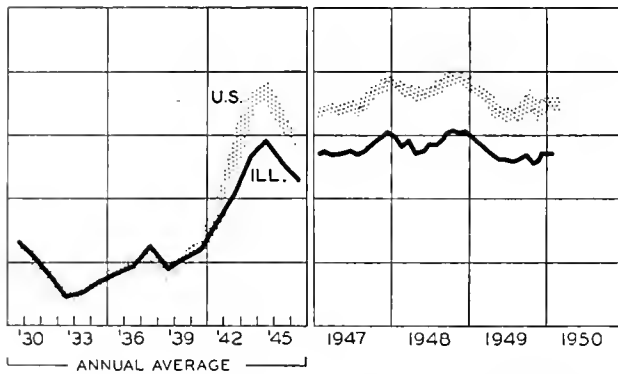
EMPLOYMENT - MANUFACTURING



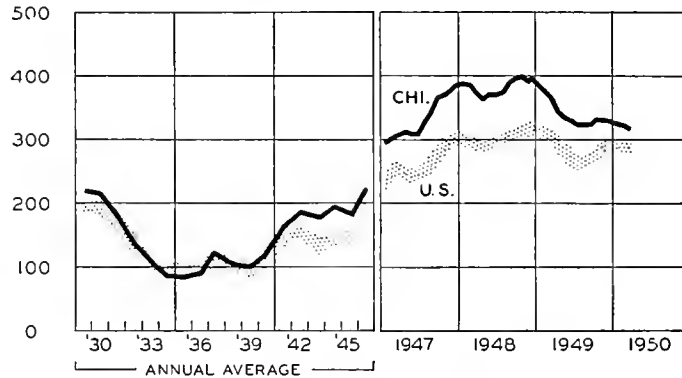
COAL PRODUCTION



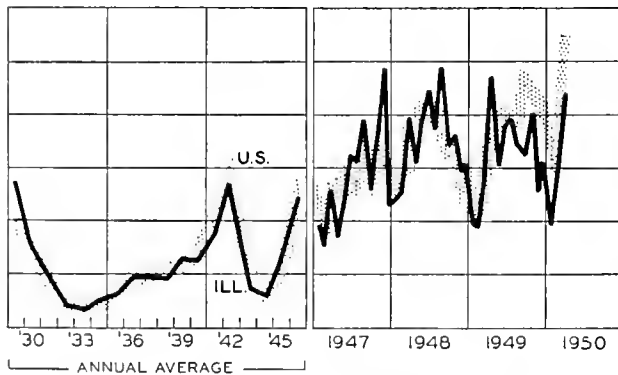
PAYROLLS - MANUFACTURING



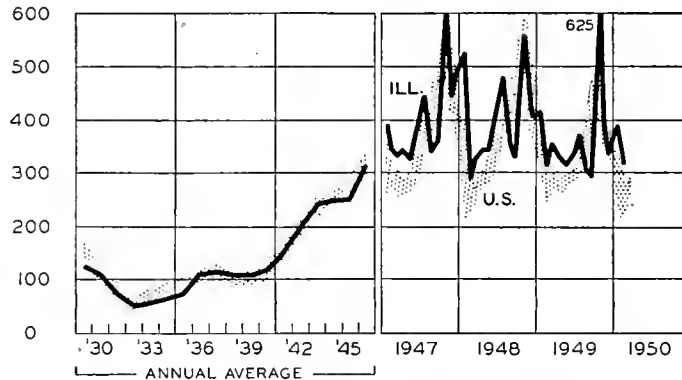
BUSINESS LOANS



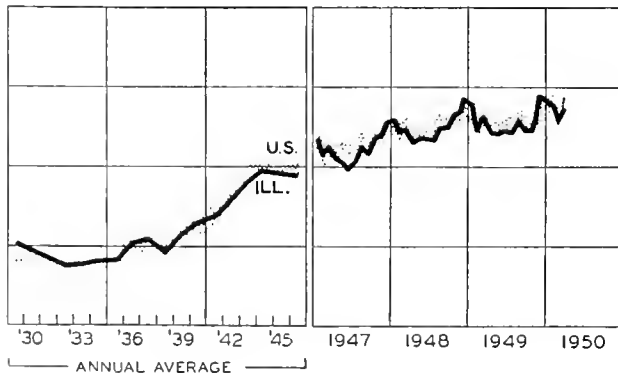
CONSTRUCTION CONTRACTS AWARDED



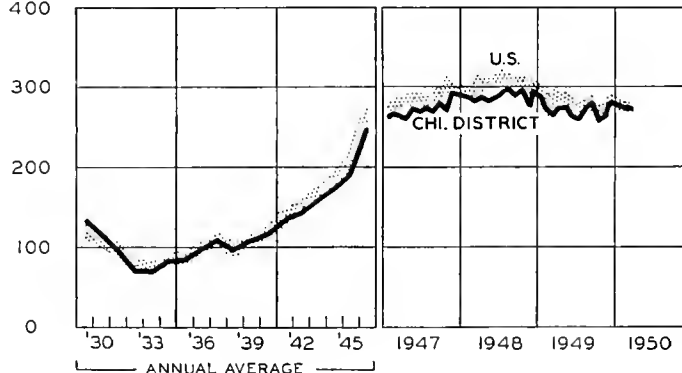
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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HIGHLIGHTS OF BUSINESS IN MAY

The second postwar boom seemed to be well under way as June drew to a close. It could be seen not only in the improvement of most business indicators but also in less tangible things, like the increasing speculation as to whether business in the current year would surpass the 1948 peak and the shift in policy discussions from the dangers of deflation to the dangers of inflation.

Steel and automobile production attained record levels during the month and continued to set the pace in industry. The steel industry operated continuously at over 100 percent of capacity, and in the last week of the month turned out an all-time high of nearly two billion tons of ingots and castings. With the Chrysler plants back in operation, the automobile industry produced nearly 700,000 passenger cars and trucks during May; the 3,000,000th car to be produced in 1950 was also turned out during the month. As a result of this heavy activity in durable goods industries, the Federal Reserve index of industrial production is estimated to have risen two additional points in May to 191 percent of the 1935-39 average. The index is now near the postwar peak of 195 attained in October, 1948, (chart, p. 5) and there is some speculation that this peak may be exceeded in June.

Building Boom Continues

The building boom not only maintained but stepped up its record pace in May. The value of construction put in place during the month is estimated at \$2 billion. This is not only 14 percent above the April level—a more-than-seasonal increase—but also exceeds the seasonal construction peaks in the preceding two years, which generally occur in the fall. Total construction activity in the first five months of this year is valued at over \$8 billion, 20 percent above the first five months of 1949.

Home building continues to be the main support of the boom. The value of private homes constructed during the first five months of 1950 aggregates over \$3.4 billion, nearly 50 percent above January to May of last year.

Employment Situation Improves

Fewer than 5 out of every 100 people in the civilian labor force were without work in May. The number of unemployed in the month, 3.1 million, was half a million below the number in April, 1950, and for the first time this year unemployment was below the level of the corresponding month of last year.

The ranks of the employed rose by over one million in

May, largely because of seasonal expansion in agriculture and construction. At 59.7 million, total employment is about 2 percent above the level of May, 1949, and is nearing the record employment of 61.6 million in July, 1948. Although both farm and nonfarm employment picked up in May relative to the preceding month, it is interesting to note that farm employment is nearly one million below the level of May, 1949, whereas nonfarm employment is almost 2 million higher than last May.

Prices Rise

Prices seem to be on the upgrade again. The Bureau of Labor Statistics wholesale price index rose fractionally every week in May and by the end of the month stood at 156.8 of the 1926 average, 1.5 percent above the end of May. For the first time this year, the index was above the figure for the comparable week of last year. Prices of farm products and of building materials showed the main increases.

There is little doubt that further price rises are in prospect. The daily index of spot prices, a composite sensitive index of the prices of 28 commodities that generally leads the wholesale price index, rose by over 5 percent during May, up 1.3 percent in the last week alone.

Farmers also benefited from the improved price situation. Although the index of prices paid by farmers rose by one percent from mid-April to May 15, prices received more than offset this rise by increasing 2.5 percent. As a result, the parity ratio was up one point to 97.

Manufacturers' Sales and New Orders Down

Manufacturers' sales declined in April to \$18.3 billion on a seasonally-adjusted basis, about 5 percent below the March level. The decline is partly due to the fewer working days in April of this year as compared with March, a factor not fully compensated by the seasonal adjustment. Almost all of the drop occurred in sales of the nondurable-goods industries, which fell 6.4 percent; sales of the durable-goods industries dropped slightly.

A somewhat disquieting note in the manufacturing scene is the 10 percent decline in new orders to \$18.0 billion. Since this figure is below the value of sales in April, unfilled orders decreased slightly. Actually, this is true only of the nondurable-goods industries, for although new orders in durable goods also declined about 10 percent, the drop was not sufficient to carry new orders in this segment below the level of sales.

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The Consumer's Dollar

The consumer's independence keeps everybody guessing. Throughout the postwar years, he has spent according to his own desires, ignoring the swings in business sentiment. In 1946, before reconversion, he splurged on the soft goods then available and helped drive prices up. In the spring of 1947, when the first decline threatened, he spent his entire income and helped to turn the tide. In 1948, when inflation gained new strength, he held back enough to help bring on the recession. In 1949, when the auto industry obtained the steel needed for record production, he took all the cars turned out and helped promote recovery.

Today, his holding to a constant level of purchases raises similar questions. How much is he going to spend this year? And will he keep spending it on autos and houses, or can apparel and other nondurables again expect a larger share?

Diversity in a Stable Total

For the last two years, total consumer expenditures have been practically stable. In the second quarter of 1948 they reached an annual rate of \$178.7 billion. By the fourth quarter of that year they were at a rate of \$180.9 billion. That 1 percent difference set the high and low of a range within which expenditures remained during 1949.

During this period, changes in income were substantial. In 1948, disposable personal income, after payment of income taxes, rose \$6.6 billion from the second to the fourth quarter. By the third quarter of 1949 it lost all that gain, falling \$6.7 billion. Then, with income at the same level as about a year earlier, expenditures were running a billion dollars higher.

Within the total, expenditures for various classes of goods and services diverged sharply. Expenditures for nondurable goods declined from a rate of \$102.4 billion in the second quarter of 1948 to \$97.6 billion in the third quarter of 1949. In contrast, expenditures for durable goods rose from \$23.8 billion to \$25.7 billion, and services rose from \$52.5 billion to \$56.5 billion.

Part of this shift in expenditures was due to price changes, with physical volume holding relatively steady. Prices of nondurable goods had moved up first, and most rapidly, and when they subsequently declined dollar sales fell off almost correspondingly. Prices of durable goods remained more stable; and prices of services continued to

increase, partly as a result of the slow but progressive relaxation of rent controls. Nevertheless, the magnitude of the shift in expenditures is so large as to suggest a real diversion of purchases from nondurables into durables and services.

Further Adjustments in the Offing

Not until the first quarter of 1950 did total expenditures break out of the range set in 1948. The annual rate in the first quarter of this year was \$182.7 billion, an increase of almost \$3 billion from the fourth quarter rate, and again most of the increase was in durables and services.

The important point about these first quarter changes, however, is not that expenditures moved up, but that they moved up so slowly. Personal income jumped more than \$10 billion, largely as a result of the very rapid payment of the veterans' insurance dividend; and with expenditures moving up less than \$3 billion, saving jumped almost \$8 billion. Thus, expenditures in the first quarter were still lagging. Consumers were apparently continuing the same policy of holding expenditures constant that had keyed their behavior since the spring of 1947.

As before, the lag has been mainly in nondurable goods. The expectation that rising income would bring sales increases in all lines of trade was disappointed. The Department of Commerce points out that sales of apparel and general merchandise stores failed to advance in the first quarter, and that their inventory-sales ratios moved up substantially. Department store sales have continued at about last year's level, as lower textile and apparel sales were approximately compensated by higher sales of durable goods, especially television sets and items connected with the furnishing of new homes.

Although little effect from payment of the veterans' insurance dividend can be observed in the retail trade returns up to this point, such effects must still be expected. Both in 1936, when there were heavy bonus payments to veterans of World War I, and in 1947, when the veterans of World War II were cashing their terminal leave bonds, there was little immediate response to the bulge in income payments. But in both instances the payments contributed to an upward trend that brought expenditures at a later date to a somewhat higher level than might have been expected on the basis of income alone. After a few months' lag, therefore, an increasing proportion of these funds is likely to appear in retail markets.

The high levels of automobile purchases and home building are still other aspects of the process of postwar adjustment. These impose a heavy drain on the consumer's dollar in the first stages of financing, and as they level off the burden will be less severe. Hence, the effects of any letdown in purchases of durable goods will be moderated by the coordinate release of funds for additional purchases of nondurables. Since total sales are now somewhat low in relation to income, there seems more likely to be a reversal of the shift away from nondurables than any definite reduction in the total.

In short, all the postwar changes in income and expenditures up to this point have been the result of special postwar conditions. There has not yet been a period of what may be regarded as normal consumption; but there is every reason to expect that expenditures will work back toward a normal relationship in the months ahead. Trends in consumption for the next year or so may well support the boom, bringing both total expenditures and their distribution into line with incomes and more settled patterns of living.

INDUSTRIAL CHEMICALS

Although it is commonly believed that the manufacture of chemicals is a relatively recent addition to American industry, the chemical industry was the first in the American colonies. During the second year of the Jamestown settlement, appreciable amounts of turpentine and wood ashes were produced on a commercial basis, and the first chemical laboratory in America was established in Massachusetts just 15 years after the Mayflower landed.

By 1914 the annual value of the chemical products made in the United States was already over \$2 billion, one-twelfth of the value of all manufactured goods, and the nation was producing nearly as much sulfuric acid as Germany and England combined. Production of chemicals, however, did not take the spotlight as an industry of national importance until imports of German dyes and medicines were cut off by World War I.

The industry began making more and more products to fill wartime shortages and continued to expand rapidly in the years following the war. The enormous demand for chemicals during World War II caused still further expansion, and by 1947 production of industrial chemicals alone was valued at almost \$3 billion. *Business Week* recently called the production of chemicals the fastest growing industry in the United States today.

Illinois Chemical Plants

There are about 100 companies in Illinois engaged in the manufacture of chemicals. Many of the largest firms in the industry have plants here. They have been attracted by an abundant supply of coal, good transportation facilities, and the great industrial market of the Chicago area—a national leader in such chemical-using industries as meat packing, steel production, petroleum refining, and the manufacture of paint and varnish.

Four of the five largest producers of general industrial chemicals in the country have plants in Illinois. One of the major plants of the Monsanto Chemical Company is located at Monsanto, where 2,000 employees manufacture more than 120 different chemicals. The Linde Air Products Corporation, a subsidiary of the Union Carbide and Carbon Corporation, manufactures oxygen and other gases in nine Illinois cities, and another national leader, the American Cyanamid Company, has a sulfuric acid plant at Joliet. The biggest chemical manufacturer in the United States, duPont, produces solvents in Chicago and has an explosives plant at Seneca.

Other large producers of industrial chemicals in Illinois include the aluminum ore division of the Aluminum Corporation of America at East St. Louis, the general chemical division of the Allied Chemical and Dye Corporation in Chicago, the Lindsay Light and Chemical Corporation at West Chicago, and the Victor Chemical Works at Chicago Heights.

Four companies in Illinois are outstanding in the production of zinc materials and sulfuric acid: the Hegeler Zinc Company in Danville, the American Zinc Company of Illinois in Fairmont City, East St. Louis, and Mon-

santo, the New Jersey Zinc Company in Depue, and the Mattiessen and Hegeler Zinc Company at LaSalle. The latter was at one time the largest zinc plant in the world.

Organic and Inorganic Chemicals

There are thousands of chemicals, almost all derived from the industry's primary raw materials, air, water, coal, salt, limestone, petroleum, and sulfur. They are classified either as organic chemicals, which are the carbon compounds that come from oil, natural gas, coal, and farm products, or as inorganic chemicals, which include all other compounds and the elements.

According to the Census of Manufactures, the value of inorganic chemicals produced in Illinois in 1947 was second only to that of New Jersey, and Illinois ranked first in product value of sulfuric acid, the most widely used of all chemicals. Although the value of organic chemicals produced in Illinois in the same year exceeded the value of inorganics, the State ranked only sixth in organic chemical production.

Organic chemicals were not produced until after World War I when they found immediate acceptance for such products as dyes, medicinals, flavor and perfume materials, plastics, and synthetic rubber. The first organic chemicals were almost all derived from coal; but since 1947, when Illinois provided nearly 15 percent of the national product value of crude coal-tar chemicals, an increasing number of organic chemicals have come from petroleum and natural gas.

Illinois is a leading state in the manufacture of a number of products closely related to the production of industrial chemicals. Among these are plastics, paints, explosives, and pharmaceuticals. The State is first in the manufacture of such miscellaneous chemical products as disinfectants, insecticides, printers' ink, and compounds for treating water, metal, and oil.

Research the Key to Success

The source of the chemical industry's diversity and continued expansion is the chemical laboratory. Manufacturers of industrial chemicals spend a total of about \$65 million each year for research, and the continual development of new products has contributed substantially to the industry's success. Outstanding chemical discoveries in recent years have led to improved plastics, synthetic fibers, detergents, and fluorine derivatives.

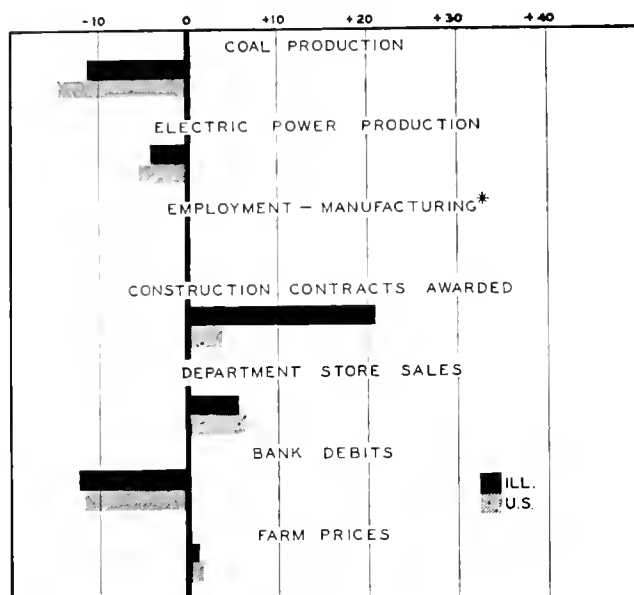
Chemicals are increasingly used as processing agents or raw materials in almost every branch of industrial production. Emphasis on research and constant improvement of chemical products and processes are responsible for the ever-growing importance of chemicals to American industrialization. Scientists have indicated that the age of mechanization which depended on metals and other natural materials may be drawing to a close, and that the manufacture of chemicals and chemical products may some day be the most important industry in America.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage Changes March, 1950, to April, 1950



* Figure for Illinois not available.

ILLINOIS BUSINESS INDEXES

Items	April 1950 (1935-39 = 100)	Percentage Change from	
		March 1950	April 1949
Electric power ¹	266.3	- 4.2	+ 9.5
Coal production ²	122.0	-11.3	+ 6.0
Employment—manufacturing ³	n.a.	.....	.....
Payrolls—manufacturing ³	n.a.	.....	.....
Dept. store sales in Chicago ⁴	226.0 ^a	+ 5.8	- 1.4
Consumer prices in Chicago ⁵	172.9	0.0	- 1.2
Construction contracts awarded ⁶	542.1	+20.7	+14.1
Bank debits ⁷	279.9	-12.3	+ 2.4
Farm prices ⁸	215.3	+ 1.3	- 5.1
Life insurance sales (ordinary) ⁹	184.9	- 9.3	+ 2.3
Petroleum production ¹⁰	238.7	- 3.4	+ 2.5

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Coop. Crop Repts.; ⁹ Life Ins. Agency; ¹⁰ Ill. Geol. Survey.

^a Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	April 1950	Percentage Change from	
		March 1950	April 1949
	Annual rate in billion \$		
Personal income ¹	216.9 ^a	- 2.6	+ 3.0
Manufacturing ¹			
Sales.....	219.6 ^a	- 4.2	+ 4.0
Inventories.....	31.3 ^{a, b}	+ 0.6	- 7.9
New construction activity ¹			
Private residential.....	8.6	+10.8	+61.8
Private nonresidential.....	6.4	+ 5.7	- 1.8
Total public.....	5.4	+16.4	+17.6
Foreign trade ¹			
Merchandise exports.....	9.7	- 6.9	-30.7
Merchandise imports.....	7.0	-12.2	+ 9.2
Excess of exports.....	2.7	+10.3	-64.4
Consumer credit outstanding ²			
Total credit.....	18.6 ^b	+ 1.8	+19.5
Installment credit.....	11.3 ^b	+ 2.2	+31.2
Business loans ²	13.4 ^b	- 2.7	- 5.2
Cash farm income ³	18.5	- 6.0	-15.3
	Indexes (1935-39 = 100)		
Industrial production ²			
Combined index.....	189 ^a	+ 1.1	+ 5.6
Durable manufactures.....	221 ^a	+ 4.2	+ 4.2
Nondurable manufactures.....	179 ^a	- 0.6	+10.5
Minerals.....	142 ^a	- 1.4	- 4.1
Manufacturing employment ⁴			
Production workers.....	148 ^a	+ 1.0	- 0.6
Factory worker earnings ⁴			
Average hours worked.....	106	0.0	+ 3.4
Average hourly earnings.....	240	+ 0.6	+ 2.3
Average weekly earnings.....	254	+ 0.6	+ 5.7
Construction contracts awarded ⁵	571	+ 3.9	+60.3
Department store sales ²	292 ^a	+ 6.6	- 0.3
Consumers' price index ⁴	167	+ 0.2	- 1.4
Wholesale prices ⁴			
All commodities.....	190	+ 0.1	- 2.5
Farm products.....	210	- 0.1	- 6.6
Foods.....	196	- 0.1	- 4.7
Other.....	180	+ 0.2	- 1.7
Farm prices ³			
Received by farmers.....	225	+ 1.7	- 5.9
Paid by farmers.....	201	+ 0.4	- 1.2
Parity ratio.....	96 ^c	+ 1.1	- 5.0

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.

^a Seasonally adjusted. ^b As of end of month. ^c Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1950					1949
	May 27	May 20	May 13	May 6	Apr. 29	May 28
Production:						
Bituminous coal (daily avg.).....	1,700	1,602	1,662	1,803	1,853	1,895
Electric power by utilities.....	5,894	5,845	5,864	5,872	5,902	5,270
Motor vehicles (Wards).....	179.1	167.0	167.3	139.5	141.3	111.3
Petroleum (daily avg.).....	5,041	5,042	5,042	4,988	4,943	4,897
Steel.....	217.4	216.3	213.8	214.0	214.2	194.3
Freight carloadings.....	781	743	712	744	745	785
Department store sales.....	283	275	308	301	285	275
Commodity prices, wholesale:						
All commodities.....	156.1	155.9	155.1	154.5	153.7	156.0
Other than farm products and foods.....	147.6	147.5	147.2	146.7	146.6	146.5
28 commodities.....	263.5	259.8	259.0	253.3	250.7	241.8
Finance:						
Business loans.....	13,359	13,377	13,365	13,420	13,475	13,628
Failures, commercial.....	214	199	217	199	186	206

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Up Again

Industrial activity continued to rise in May, according to the Federal Reserve Board. At an estimated 191 percent of the 1935-39 average, production was up 2 points from April's 189, and was only 4 points below the peak of 195 in late 1948. It may be seen from the chart below that May's level of output reached the pre-slump level of January, 1949. Expanded production in heavy industries such as iron and steel, automobiles, and machinery is cited as an important element in the recovery. Steel output, scheduled at capacity-plus operation during May, exceeded 1.9 million tons of castings and ingots weekly to set a new record of over 8.5 million net tons for the month. Automotive output likewise moved along at a fast pace. Production in the week ended May 27 reached a record 177,500 vehicles and production for the month was estimated at more than 697,000 cars and trucks, also a new peak. The avoidance of a strike at GM and the settlement of the Chrysler strike helped output along; Chrysler even went on overtime to make up for the losses of the 100-day strike.

Housebuilding Still Booming

A new record in new housing units started was set again in April, according to the Bureau of Labor Statistics. A total of 126,000 units started in April put the previous month's peak of 110,000 units in the shade and boosted the four-month total to 395,000 new dwellings begun, half again as much as the January-April total in 1949. One flaw in the picture is pointed out by the Department of Commerce, which has suggested that materials production will have to be raised if the current peak building program is to be maintained through the summer with normal stocks of materials.

The record-breaking level of general building activity continued into May. With new construction put in place

valued at nearly \$2 billion in May, building was up 14 percent from April and more than 20 percent from May, 1949. The total for the first five months also exceeded last year's January-May value by a fifth. In both cases private home building was the chief factor in the gain. Private residential construction was valued at \$825 million in May. Farm building also showed a substantial increase, rising 30 percent to \$39 million. Factory building rose somewhat after declining for three years; public construction rose from \$448 million to \$531 million.

Employment Situation Encouraging

The big news in the labor relations picture in May was the agreement between the UAW and General Motors. The new contract, like its predecessor, was something different in wage agreements in that it runs for five years instead of the usual two years. The cost-of-living increase clause was retained; the guaranteed annual raise was put at four cents an hour instead of three; and pensions of \$100 including Social Security benefits are provided, with the company financing all but the OASI benefits. If Social Security pension payments are raised, the increase will be added to the present \$100.

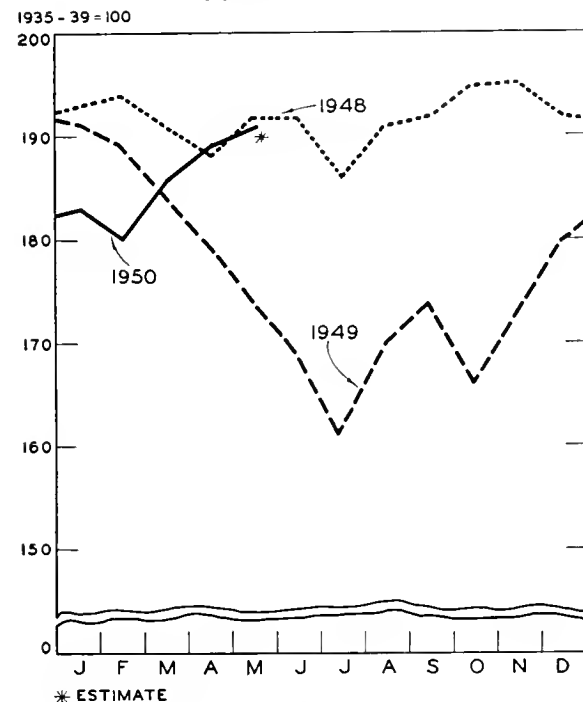
The improved business picture in May is reflected in employment data issued by the Bureau of the Census. In addition to the 600,000 workers entering the labor force during the month, increased employment opportunities absorbed more than 450,000 unemployed workers, thus pulling unemployment down to 3,057,000, the lowest level since April, 1949. Although much of the gain in employment occurred in the agricultural sector as farm work got started, there was also a noticeable gain in nonagricultural employment. Total employment was the highest since last August; nonagricultural employment was the highest since December. Census data, in thousands of workers, follow:

	May 1950	April 1950	May 1949
Civilian labor force	62,788	62,183	61,983
Employment	59,731	58,668	58,694
Agricultural	8,062	7,195	8,974
Nonagricultural	51,669	51,473	49,720
Unemployment	3,057	3,515	3,289

A survey of recent labor market developments has just been published in the May issue of the *Federal Reserve Bulletin*. The report indicates that the rise in unemployment which has occurred this year reflects the greater rise in the labor force than in employment. Annual additions to the labor force since the war have ranged between 800,000 and 1,100,000, considerably above the prewar additions of 600,000 annually. In 1949, an additional 800,000 workers together with 500,000 fewer jobs raised unemployment to an average of 3.4 million. It is also pointed out that another factor in the rise in unemployment since mid-1949 has been increased worker productivity, chiefly as a result of the large postwar expenditures on new machines and equipment.

The Bureau of Labor Statistics has also recognized the general concern with unemployment by publishing, in the May issue of the *Monthly Labor Review*, Part I of an analysis of recent unemployment trends. Part I summarizes developments from 1946 to 1948; Part II will bring the survey up to date. Early conclusions of the BLS match those of the FRB: the rising unemployment level mainly reflects an expanding labor force and frictional and seasonal factors.

INDUSTRIAL PRODUCTION



Source: Federal Reserve Board.

Rubber Market Unsettled

The rubber situation has become increasingly disturbed in recent months. The price of natural rubber had been declining for a year at mid-1949 as consumption decreased and stocks were drawn down. With the fall recovery of business, however, consumption increased, with the result that prices turned upward. The continuing increase in demand has caused prices to rise further during the past nine months, as shown in the chart, although imports of natural rubber have also been rising from the low level of early 1949. The break in prices in October reflected the sharp devaluation of foreign currencies, especially of the British pound sterling, but prices immediately started up again. In London, leading world market for rubber, prices have reached a 25-year high. Since future supplies of natural rubber are made uncertain by discord in the Far East, so uncertain that the government has halted short-term "borrowing" from its stocks, domestic synthetic production may shortly show further increases. Two leaders of the industry have urged expanded synthetic output by the government-owned plants. Stockpiling of raw materials for synthetic rubber has also been suggested as a defense measure.

Consumer Credit Still Rising

Consumer credit rose another \$325 million in April. Installment credit, which now accounts for almost two-thirds of all consumer credit, jumped \$242 million, with

about half the gain representing purchases of automobiles. The total is now \$18.6 billion, about 8 percent of personal income in the first quarter. At the end of April, 1941, consumer credit outstanding was nearly 11 percent of first quarter personal income.

Gross National Product Recovers

After showing general weakness in the first three quarters of 1949 and leveling off in the fourth quarter, gross national product as estimated by the Department of Commerce has bounced back to a total of \$263.9 billion, a high surpassed only in the third and fourth quarters of 1948. All categories of personal consumption and domestic investment shared in the increase, much more than offsetting a total decrease of \$3.1 billion in net foreign investment and government purchases of goods and serv-

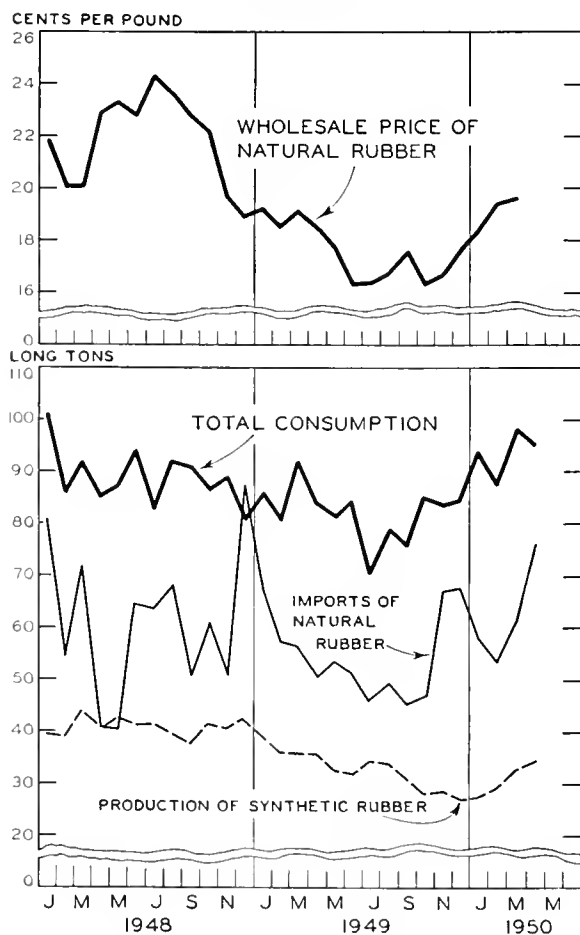
GROSS NATIONAL PRODUCT OR EXPENDITURE (seasonally adjusted, billions of dollars at annual rates)

	1st Qtr. 1950	4th Qtr. 1949	1st Qtr. 1949
Gross national product.....	263.9	256.7	262.0
Personal consumption.....	182.7	179.8	178.7
Durable goods.....	26.9	25.2	23.0
Nondurable goods.....	98.1	97.7	100.4
Services.....	57.7	56.9	55.3
Domestic investment.....	41.1	33.7	40.0
New construction.....	20.1	18.7	16.8
Producers' durable equipment	19.3	18.7	20.7
Changes in business			
inventories.....	1.7	-3.7	2.5
Nonfarm inventories only..	2.5	-2.8	1.9
Foreign investment.....	-2.1	-0.5	1.0
Government purchases.....	42.2	43.7	42.3

INCOME AND SAVINGS

National income.....	n.a.	219.1	224.7
Personal income.....	219.9	209.3	212.0
Disposable personal income.....	201.3	190.7	193.4
Personal saving.....	18.6	10.8	14.8

PRICE, PRODUCTION, AND CONSUMPTION OF RUBBER



Source: U. S. Department of Commerce.

ices. The decrease in private foreign investment of \$2.1 billion occurred despite the emphasis put on private aid abroad under the Point IV program and the government's view that private investment must supplement and eventually replace the government-financed Marshall Plan.

Personal income rose much more sharply than gross national product as a result of the payment of dividends on National Service Life Insurance. However, about \$2 billion of the rise reflected higher wages and salaries and expanded incomes from unincorporated businesses and farming. The insurance payments served to raise gross national product through their effect on personal consumption expenditures, which rose to the highest level on record.

Inventory liquidation, which persisted throughout the last nine months of 1949 and was an important factor in the 1949 slump, was sharply reversed in the first quarter, as the movement of inventories changed from a quarterly decrease of \$2.8 billion for nonfarm businesses to additions to stocks totaling \$2.5 billion. An increase of \$1 billion in the value of residential building put in place was important in the rise of the value of new construction and domestic investment.

World Trade Fair

The first American international trade fair will be held at Chicago August 7-20, with the aim of promoting two-way trade between this country and foreign nations. Both American companies and foreign producers will exhibit their wares, which will include consumer goods and industrial supplies and equipment.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Invisible Doorman

The first double-acting automatic power hinge ever manufactured has been developed by the Pittsburgh Plate Glass Company. A small electric hydraulic apparatus, the hinge controls 250-pound glass doors with a hidden micro-switch so sensitive that the moment the door handle is touched the door starts to open. The hinge requires less maintenance than a home refrigerator and does not need major structural changes for installation or air compressors for operation. It is contained in a floor unit no larger than a shoebox, mechanized by a one-third horsepower motor. It is expected to cost only a fraction as much as electric eye mechanisms to install and operate.

Labor Rulings

The National Labor Relations Board has ruled that employers must open payroll data to unions upon request for collective bargaining purposes. The data, both on a current basis and for the preceding year, must be submitted for all union and nonunion employees in the bargaining unit represented by the union, and include names, positions, and wage rates.

The Supreme Court has opened the way for wartime workers to press overtime pay claims that might reach a \$250,000,000 total. The tribunal decided 5 to 2 that workers in government munitions plants operated by private firms under cost-plus, fixed-fee contracts are entitled to benefits of the Wage-Hour Act. Three plants and overtime claims amounting to about \$1,700,000 were directly involved.

New Products and Services

The New York *Journal of Commerce* has announced the publication of the 1950 edition of *New Products and Services*, a booklet that lists and explains hundreds of new money-making ideas. Compiled from a column that appears daily in the paper, the booklet describes 1,000 new products, including the names and addresses of the manufacturers. (50¢)

New Air Filters

The Arthur D. Little Company, Incorporated, has developed for the Atomic Energy Commission a new type of air filter which has been used to catch radioactive dust. It is expected that the filters, which make possible completely dust-free conditions in industrial operations, will soon be available commercially. The filtering medium, a special soft and felt-like paper set into a wooden frame, catches even invisible atmospheric dust. Single units can be built to handle 100 cubic feet of air per minute at pressures well within the capacity of ordinary blowers.

Trailer Cooling

A new hydraulically-operated refrigeration system for semi-trailers is expected to bring increased use of refrigerated trailer transportation, particularly for long distance hauling of perishable foods. The system operates from the tractor's own power take-off while the trailer is moving. It will retain low temperatures from 4 to 6 hours after the power is shut off and has an auxiliary electric motor for stopovers. Manufactured by the Batavia Body Company, Batavia, Illinois, the unit is said to undersell

and have less maintenance cost than other refrigeration systems already in use.

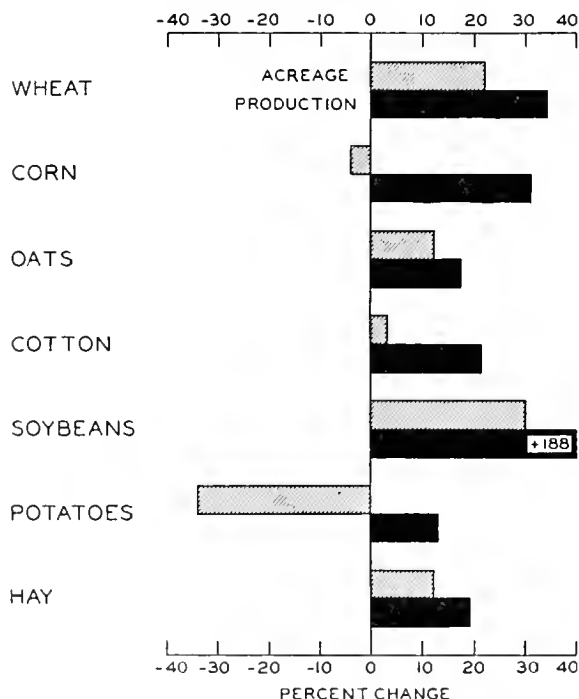
Copper Smelting

The state-owned Outokumpu Copper Works in Finland has announced what has been described as the most important discovery in copper smelting in 100 years. The new process, which smelts copper ore by using the heat energy of the ore itself, generates a considerable surplus of electrical energy at the same time.

Crop Reductions

An article entitled "Surplus Acres" in the May issue of the *Agricultural Situation* describes the major unbalance of farm crops which developed during the war. Although there is about the same amount of land in farm production now as there was before the war, the accompanying chart shows that there have been definite changes both in acreages and production of various crops. There have been large increases in the production of corn, soybeans, and wheat. Production of all major crops increased more than acreages, even increasing while acreage declined for corn and potatoes. Long-awaited adjustments from this wartime pattern are expected this summer. The government has ordered 12 million fewer acres of wheat, 11 million fewer acres of corn, and reduced production of cotton, rice, peanuts, flaxseed, and potatoes. Reductions will total some 30 million acres, leaving a surplus of land to be utilized or allowed to lie fallow. Alternative crops vary from region to region, but for most of the surplus acreage the answer seems to be more hay and pasture for more beef and milk.

CHANGES IN ACREAGE AND PRODUCTION
1937-41 average to 1949



Source: Bureau of Agricultural Economics.

THE USE OF THE CENSUS BY BUSINESS

ROY V. PEEL, Director

Bureau of the Census

Census statistics are essential to good business judgments. Like the instruments on the panel board of a great airliner, they enable the pilot to keep his ship on a true course. They eliminate guessing to the greatest practical degree. They reveal, for instance, that in the last 10 years the population of the United States has increased by 20 millions. This increase is equal to the addition of five states the size of Illinois, Indiana, Iowa, Missouri, and Kentucky in terms of their 1940 population. Census statistics also show that the nation's three million wholesale, retail, and service establishments did a \$330 billion business in sales and receipts in 1948, three times the volume reported 10 years earlier. They show that industrial payrolls more than trebled from \$12.7 billion in 1939 to \$39.7 billion in 1947. During the same period value added by manufacture rose from \$24.5 billion to \$74.4 billion. More importantly, Census statistics show precisely where the changes have taken place.

Census statistics consequently are good business tools. They provide detailed information on the geographical distribution of the population, the number of family buying units and their purchasing power in terms of income, and the classification of the people in terms of sex, age, race, education, marital status, occupation, and employment. Thus, Census data on population as enumerated in 1950 will be provided for each of the 48 states, for 3,100 counties and independent cities, for clusters of counties in 504 economic areas, for more than 150 standard metropolitan areas consisting of a whole county or counties and including a central city of 50,000 or more population (in 1950), and for many thousands of cities, towns, and villages, both incorporated and unincorporated. Similarly, Census data on agriculture, housing, manufactures, and distribution are or will be available in as much detail as general usefulness demands and nondisclosure restrictions will permit.

Uses of Census Data are Many and Varied

For many decades now, the Bureau of the Census, of the United States Department of Commerce, has assembled and published vast collections of data. In recent years, more than ever before, business interests have become aware of the great treasure house of information

stored in reports of the various Censuses this country conducts at periodic intervals. Through their trade associations, they have enjoyed the benefits of Census undertakings for many years. The Census Bureau has served as the producer and wholesaler of business statistics; the trade association has often served as the retailer. Independent research by individual businessmen has not been so common.

Business can and does use the data collected in the various Censuses (Population, Housing, Agriculture, Manufactures, Distribution, Mineral Industries, etc.) in many applications to the study and solution of its problems. With multiplied variations, use of the assorted Census data is limited mostly by the user's ingenuity. Space will permit only a few citations. Among the more important uses are:

1. Definition of Consumer Markets

The Population Census provides the basic data on the number of persons and the number of families in a given area (state, county, city, or town) as a measure of the potential number of customers. This Census also provides data on purchasing power of individuals and families in these areas, measured in terms of income.

The Housing Census provides the basic data on the number of dwelling units and their characteristics and facilities for family living. Housing data for a given area related to family statistics, provide practical indexes to present consumer demand and future capacity for expansion in many lines.

The Agriculture Census provides the basic data on the number of farms, farm families, farm income, and farm facilities for determining potential demand for the goods the farmer buys. Such data are available for every county and may be compared to locate the strongest markets.

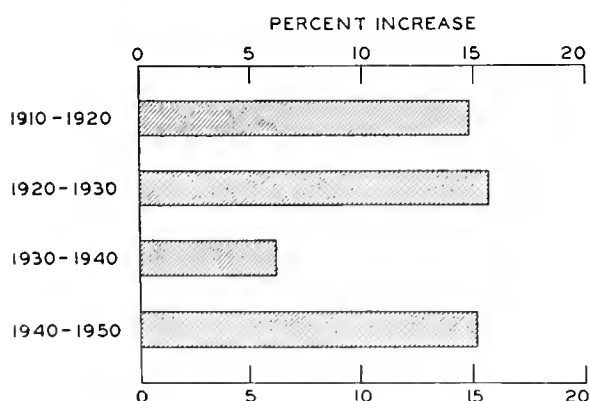
2. Definition of Industrial Markets

The reports of the Census of Manufactures and the Census of Mineral Industries are practical sales handbooks for producers of materials, supplies, and equipment for industrial users. Many manufacturers maintain their own marketing and sales organizations. In addition, there are hundreds of industrial wholesalers who serve manufacturers and mining industries. Without the information available to them from reports of these Censuses, their work of locating suppliers and buyers would be more difficult and costly. By means of Census data they are enabled to channel their activities in an orderly manner. And for the manufacturers' sales organizations selling to wholesalers and direct to retailers, the Census of Business reports are additional road maps to their markets. For the manufacturer of farm machinery and equipment, the county reports of the Census of Agriculture detailing the extent of farm mechanization are equally important guides to markets for their products. And the wealth of information that is contained in the Census of Housing reports for the manufacturers of building supplies, plumbing and heating equipment, and the other heavy goods used in construction is obvious.

3. Keeping Tab on Distribution

One of the newest of the national Censuses is the Census of Business covering the wholesale, retail, and service

GROWTH OF U. S. POPULATION



Source: Census of Population.

trades. This Census provides the basic data on the number and geographical distribution of establishments by states and large metropolitan areas for nearly 300 kinds of business in the three categories. For smaller areas, where the number of separate stores in each kind of business is small, the data will be limited to avoid disclosure of operations of individual establishments. The Business Census reports provide data on sales of wholesalers and retailers and receipts of service establishments, their payrolls, and inventories. The wholesaler uses the data to locate his market in terms of retail outlets. The retailer measures his competitive position by comparing his own records with the averages for his kind of business. He determines the number of competitors in his lines of business for the market he is serving. In general, major uses of the Business Census data include the selection of key markets and the allocation of sales efforts to them; as a basis for selective selling by kinds of business, types of operation, or industries; as a method of selecting specific geographical sections for sample or intensive sales or advertising effort; for selecting new store locations, or branches; and for analyzing business conditions in a given locality.

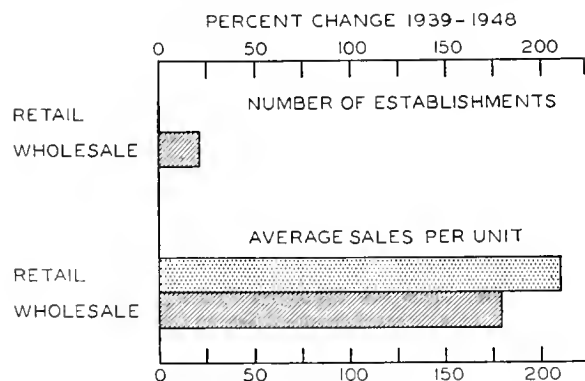
4. Advertising and Sales Quotas

The promotion managers of newspapers, magazines, radio, video, direct mail advertising, and other media are among the most assiduous users of Census data and their interest covers the whole range of Census subjects. To their prospective advertisers, they present statistical information about the areas they cover in terms of gross population, number of families as consumer units, payrolls and purchasing power, and other attributes of their audience. Turnabout, the advertiser studies these Census data in relation to the circulation offered by the various advertising media in determining which of them to employ, and to what extent, in comparison with the audience to be reached in each community to be covered in the advertising program. In similar application, the manufacturer assays Census data regarding available distribution outlets in promotional territory, as does the wholesaler with respect to retail outlets, and quotas for salesmen are often based upon the result.

5. Community Development

The business interests of a given community combine their efforts through Chambers of Commerce and trade development organizations to promote the development of that community. Census data are the foundation for promotional briefs prepared by these interests to draw other businesses to the community. The industrial establishment seeking a new plant location doesn't use the "eenie-meenie-miney-mo" system to decide among several prospective

CHANGES IN BUSINESS STRUCTURE



Source: Census of Business, 1948.

locations. Its management frequently consults Census data for information as to the labor supply indicated in terms of numbers of people in the working age groups, the level of education in the community, the number and kind of experienced workers in the local labor force, available housing facilities for skilled craftsmen which the industry must bring with it, and other items pertinent to its decision on choice of location. The Agriculture Census and the Mineral Industries Census reports give the manufacturer important information on the supply of materials from field and mine which are readily available. Many instances may be cited when the Census Bureau has been called upon by local business authorities for such help.

6. Evaluation of Trends

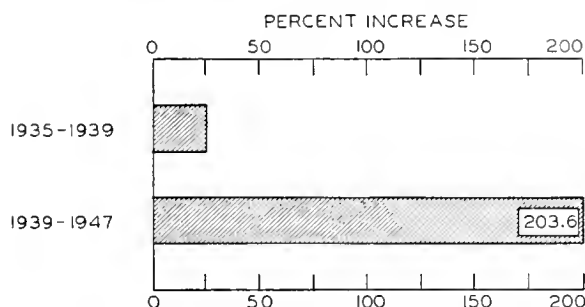
The business research specialist who seeks to measure trends in a given area or city would be helpless without Census statistics which have been accumulated over the years. But by means of Census reports he can trace the development of a given community through the years. By relating these data to other known factors, an informed look into the future is possible. The businessman can only see ahead in the light of past experience, and the records of past Censuses are importantly the record of this experience. The businessman of today needs Census statistics to avoid other pitfalls such as moving into saturated markets, into poor economic areas, or into other situations of doubtful prospect.

New Census Data Now Become Available

The most recent Census of Manufactures covered operations of about 240,000 industrial establishments in 1947. Its results have been published for all areas. The last Census of Business covered operations in 1948 of nearly three million retail, wholesale, and service establishments. Preliminary county reports of the 1948 Business Census have been issued covering retail, wholesale, and selected service trades, with other reports scheduled for publication during the remainder of 1950 and early next year. In future years, the Censuses of Manufactures and Business will be taken together covering operations in the years ending in '3 and '8.

Tabulations are about to be started for the 1950 Censuses of Population, Housing, and Agriculture, but detailed results will not be available until the spring of 1951. These tabulations will continue for the next two years, with all reports of these Censuses due on the presses by the end of 1952. They will provide business with sharper tools than the older Census data now available.

VALUE ADDED BY MANUFACTURE



Source: Census of Manufactures, 1947.

LOCAL ILLINOIS DEVELOPMENTS

The general level of Illinois business this April remained well above that of April, 1949. Construction continued to advance, particularly in the residential field. Coal production, though down from the March high, was the highest for the same month since April, 1945. Steel production in the Chicago area, totaling 1.5 million net tons, established its second highest monthly mark on record.

Electric Power Production

Power production in the State was 9 percent above last April, just as for the nation. The decline in power consumption in the Illinois 16-city area (see chart) was due entirely to the decrease in power consumption in Chicago. Power consumption in the 15 other Illinois cities this April averaged 10 percent more than last April.

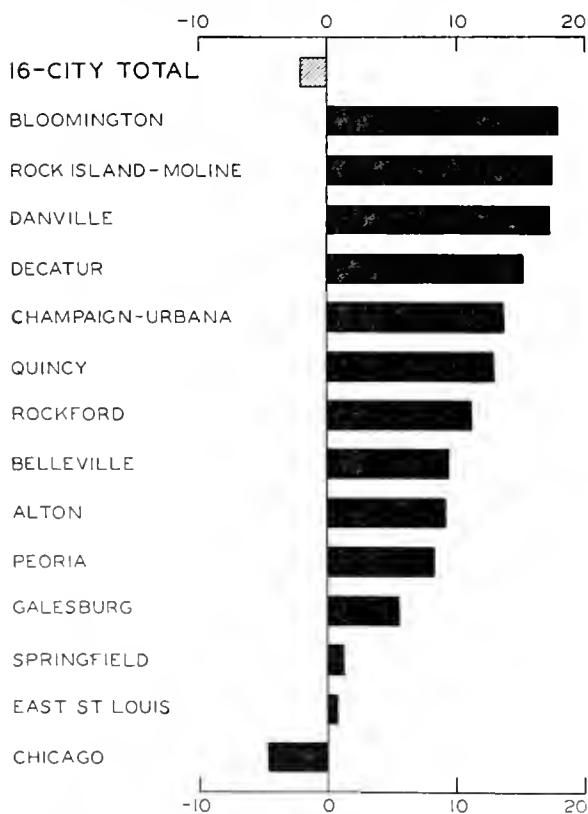
Construction

Construction contracts awarded in April aggregated \$90 million, exceeding all previous monthly records except the wartime high of \$142 million in September, 1942. Residential building accounted for more than one-half of the April contracts. During the first four months of this year residential building was approximately double that for the same period in 1949.

Building permit valuation in 19 cities was off 8 percent from March but 13 percent above last April. Aurora, Galesburg, Joliet, and Rock Island-Moline areas reported valuations of building permits 90 percent higher than in March.

ELECTRIC POWER CONSUMPTION

PERCENT CHANGE - APRIL 1949 - APRIL 1950



Source: Local power companies.

Total planned investments in industrial plants reported for the Chicago area in May approximated \$12 million, bringing the total for the area for the first five months of 1950 to \$119 million, nearly three times the amount planned for the same period in 1949.

Plans are being completed for a new cold-rolled steel strip mill in Chicago to start operating by September, by a company being formed to take over operation of the government-owned wartime brass plant, once operated by Revere Copper & Brass, Inc. The company plans to produce high-grade cold-rolled strip and expects to reach an annual production level of 75,000 tons soon after January 1, 1951.

Allis-Chalmers Manufacturing Company has started work on its \$3.5 million expansion and modernization program at its Springfield tractor division works. The project is to be completed this year. Pressed Steel Car Company of Mt. Vernon, idle since last August because of lack of orders, has received an order for 2,000 box cars. The firm also recently purchased and moved to Mt. Vernon the equipment of Jahn Truck Company of Savanna and plans to manufacture heavy-duty highway truck trailers in addition to railroad cars.

Great Lakes Solvents, Inc., which manufactures an anti-freeze solution, has acquired a 10-acre site in Bedford Park, where it will erect a canning and packaging plant and office building.

Panhandle Eastern Pipeline Company and Trunkline Gas Supply Company have started work on a 1,219-mile gas pipe line which will extend from gas fields in Louisiana and Texas to Tuscola. The line is to be completed by October, 1951.

Work is progressing on the 482-foot television tower for station WHBF at Rock Island, and the station expects to be on the air with television in a short time.

The State Highway Division reported bids totaling \$3.3 millions received in April and May for road projects in nine counties. A new 1,000-unit housing project for officers and airmen at Scott Air Base, Belleville, has been approved. The project, to be completed in about 15 months, will cost approximately \$8 million.

Retail Sales

Retail sales in the State in March, latest month for which data are available, were up 14 percent from February and 2.5 percent above March, 1949. Sales in department stores throughout the State in April were slightly above March. Rockford and Springfield reported increases of 18 percent.

Less than one percent of the merchants in Illinois handled approximately 41 percent of the retail business in the State last year, reports the State Department of Revenue. A recent study of the retailers' occupational tax payments of the 130,000 retailers in the State revealed that 1,200 retailers did \$3.4 billion worth of business in the 12-month period December, 1948-November, 1949, as compared with \$4.9 billion done by the other 128,800 merchants in the State.

Midwest Exchange

Volume of shares traded on the Midwest Exchange since it opened five months ago was more than double the volume traded in the same period last year on the Chicago, Cleveland, Minneapolis-St. Paul, and St. Louis exchanges, which merged last year to form the Midwest.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

APRIL, 1950

	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ¹ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS	\$23,016 ^a	743,313 ^a	n.a.		\$8,726 ^a	\$10,876 ^a
Percentage Change from... {Mar., 1950...	-8.0	-2.0		+3.8	-12.3	-9.5
{Apr., 1949....	+12.7	-2.0		-7.0	+2.4	-1.3
NORTHERN ILLINOIS						
Chicago	\$15,439	582,845	n.a.		\$7,968	\$ 9,570
Percentage Change from... {Mar., 1950...	-13.7	-6.7		+2.4	-12.6	-9.1
{Apr., 1949....	+10.2	-4.8		-7.1	+2.7	-1.0
Aurora	\$1,024	n.a.	\$5,767		\$ 32	\$ 81
Percentage Change from... {Mar., 1950...	+98.4		+9.3	+14.7	-4.9	-1.1
{Apr., 1949....	+97.3		n.a.	+2.0	-1.5	+7.8
Elgin	\$ 195	n.a.	\$4,483		\$ 22	\$ 59
Percentage Change from... {Mar., 1950...	+12.1		+19.8	+2.4	-6.7	-27.8
{Apr., 1949....	-11.4		n.a.	-6.7	+7.0	+0.5
Joliet	\$ 574	n.a.	n.a.		\$ 36	\$ 61
Percentage Change from... {Mar., 1950...	+97.3			+2.1	-9.8	+0.5
{Apr., 1949....	+83.4			-12.9	-6.8	-4.6
Kankakee	\$ 162	n.a.	\$3,954		n.a.	\$ 29
Percentage Change from... {Mar., 1950...	-49.2		+23.5	+11.6		+2.5
{Apr., 1949....	+170.0		n.a.	+3.2		+25.3
Rock Island-Moline	\$ 962	15,697	n.a.		\$ 28 ^b	\$ 101
Percentage Change from... {Mar., 1950...	+106.9	-2.8		n.a.	-11.3	-17.9
{Apr., 1949....	+82.5	+17.7			+3.2	-4.7
Rockford	\$1,174	21,604	n.a.		\$ 98	\$ 167
Percentage Change from... {Mar., 1950...	-36.6	+5.5		+18.2	-8.2	-7.9
{Apr., 1949....	+271.5	+11.1		-3.8	+3.8	+3.5
CENTRAL ILLINOIS						
Bloomington	\$ 115	4,356	\$4,691		\$ 38	\$ 82
Percentage Change from... {Mar., 1950...	-49.3	+2.5	+17.2	n.a.	-12.7	+0.2
{Apr., 1949....	+88.5	+17.9	n.a.		-0.3	+0.7
Champaign-Urbana	\$ 335	7,062	\$6,512		\$ 39	\$ 78
Percentage Change from... {Mar., 1950...	-2.9	+1.2	+17.5	n.a.	-9.3	-10.0
{Apr., 1949....	+0.9	+13.6	n.a.		+3.4	-10.0
Danville	\$ 154	6,557	n.a.		\$ 32	\$ 47
Percentage Change from... {Mar., 1950...	-22.6	+2.3		+9.1	-5.3	-10.0
{Apr., 1949....	-51.6	+17.3		-10.4	-1.4	-7.5
Decatur	\$ 626	13,950	\$8,060		\$ 67	\$ 83
Percentage Change from... {Mar., 1950...	+12.4	+3.0	+20.0	+15.0	-8.1	-3.0
{Apr., 1949....	+89.1	+15.1	n.a.	+1.6	+8.6	-1.2
Galesburg	\$ 437	4,396	\$3,409		n.a.	\$ 27
Percentage Change from... {Mar., 1950...	+93.4	-2.3	+20.4	n.a.		-5.7
{Apr., 1949....	+178.3	+5.4	n.a.			-4.3
Peoria	\$ 917	39,983 ^c	\$14,611		\$ 154	\$ 166
Percentage Change from... {Mar., 1950...	+12.1	+2.4	+14.1	+7.0	-9.8	-9.1
{Apr., 1949....	-59.3	+8.2	n.a.	-8.0	-5.9	+2.6
Quincy	\$ 307	6,292	\$4,324		\$ 27	\$ 62
Percentage Change from... {Mar., 1950...	+44.8	+16.5	+19.1	+10.0	-7.5	-10.9
{Apr., 1949....	-11.8	+12.9	n.a.	-3.0	-4.7	-20.7
Springfield	\$ 442	19,291 ^c	n.a.		\$ 68	\$ 163
Percentage Change from... {Mar., 1950...	+22.8	+3.3		+18.2	-11.3	-26.5
{Apr., 1949....	+38.6	+1.2		-12.7	+2.4	-16.8
SOUTHERN ILLINOIS						
East St. Louis	\$ 153	8,248	n.a.		\$ 93	\$ 40
Percentage Change from... {Mar., 1950...	-60.6	-7.0		n.a.	-12.4	-15.8
{Apr., 1949....	-42.0	+0.7			-8.1	-0.9
Alton	n.a.	9,405	\$1,123		\$ 22	\$22,721
Percentage Change from... {Mar., 1950...		-5.1	-68.1	n.a.	-12.7	-13.4
{Apr., 1949....		+9.2	n.a.		-2.8	-4.6
Belleville	\$ 152	3,987	n.a.		n.a.	\$ 29
Percentage Change from... {Mar., 1950...	-12.1	+0.4		n.a.		-2.4
{Apr., 1949....	+92.4	+9.5				+5.1

Sources: ¹U. S. Bureau of Labor Statistics. Data include Federal construction projects. ²Local power companies. ³Illinois Department of Revenue. Data are for March, 1950, the most recent available. Comparisons relate to February, 1950. ⁴Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵Local post office reports.

^a Total for cities listed.

^b Moline only.

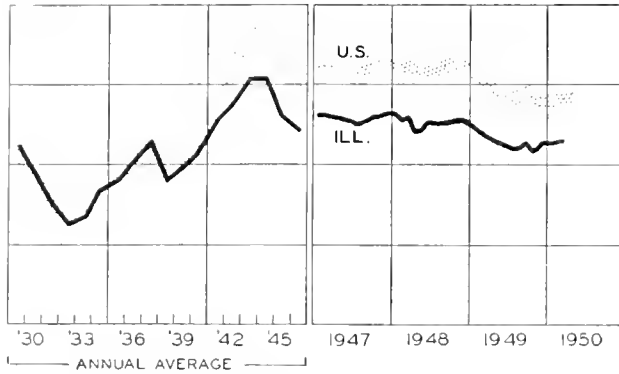
^c Includes immediately surrounding territory.

n.a. Not available.

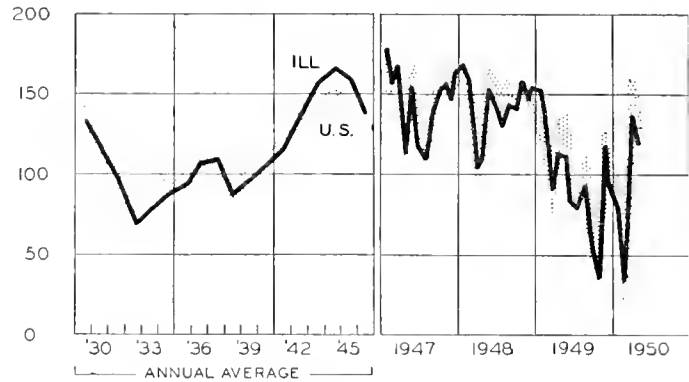
INDEXES OF BUSINESS ACTIVITY

1935-1939=100

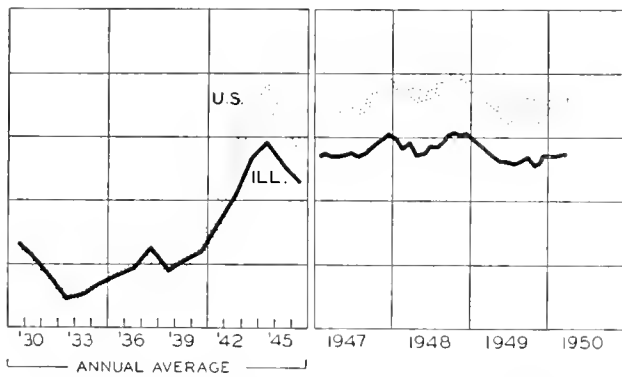
EMPLOYMENT-MANUFACTURING



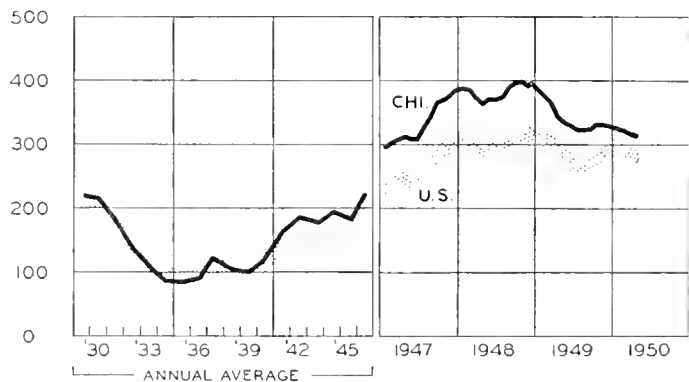
COAL PRODUCTION



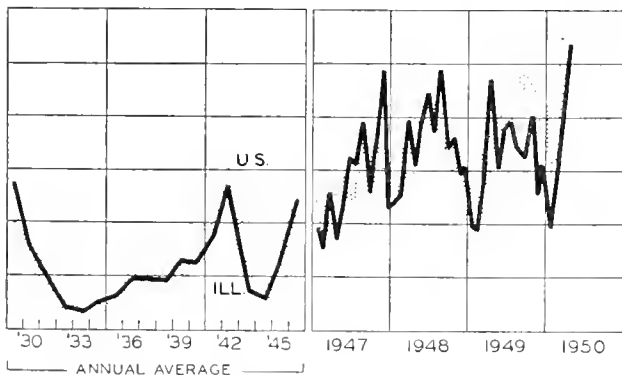
PAYROLLS-MANUFACTURING



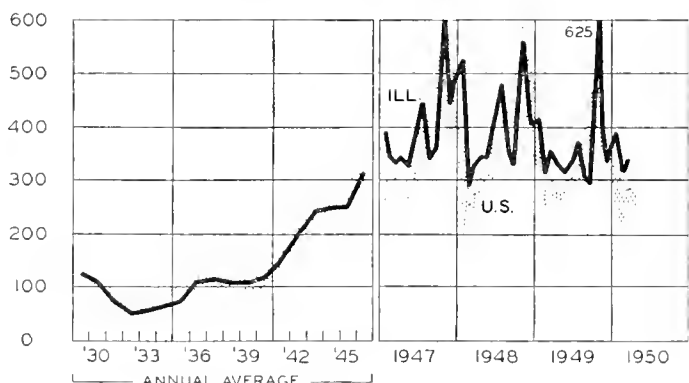
BUSINESS LOANS



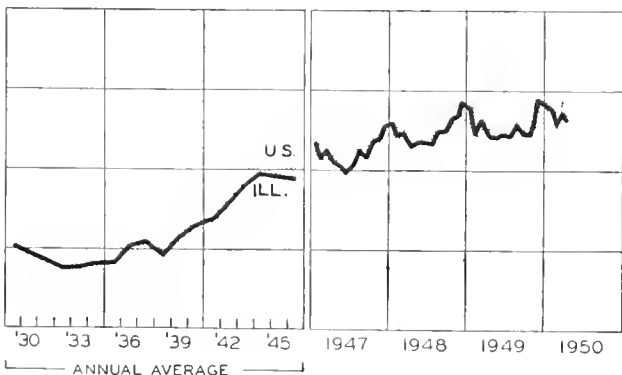
CONSTRUCTION CONTRACTS AWARDED



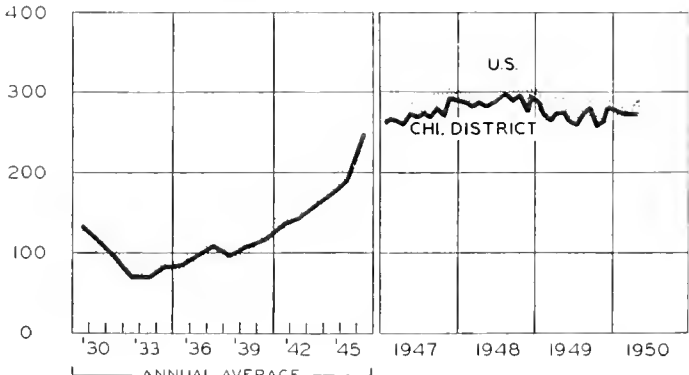
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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JULY, 1950

NUMBER 7

HIGHLIGHTS OF BUSINESS IN JUNE

Whatever doubts there may have been about the continuation of the present boom at record levels through 1950 were dispelled by our military intervention in Korea. Many sectors of the economy are already operating at all-time peaks with no letdown in sight. It therefore remains to be seen whether the additional needs of the military forces can be supplied without a further upward spiral of prices.

At the end of June, the Bureau of Labor Statistics weekly wholesale price index stood at 157 percent of the 1926 average, 0.1 percent above May, and 2.3 percent above June, 1949. Meats, metals, and building materials were largely responsible for the increase on both the year-to-year and month-to-month bases. The daily index of 28 sensitive commodity prices also rose during the month, up 1.5 percent over May.

Industrial Production at All-Time Peak

Preliminary estimates indicate that the Federal Reserve index of industrial production in June may have exceeded the previous peak of 195 in October and November of 1948. As in previous months, durable-goods production accounts for most of the increase, with steel production going continuously at over 100 percent of theoretical capacity, automobile output running at the incredible rate of 10,000,000 vehicles a year, and building material, furniture, and household appliance production at capacity levels. Soft goods production may also be at a peak, as output of rubber, petroleum, and chemical and paper products continues at or near capacity.

Reflecting the boom in industrial activity is the rise in electric-power output to a weekly average of 6 billion kilowatt-hours, only slightly below the peak rate of 6.1 kilowatt-hours weekly in late January and early February. The increase is all the more significant because June and July generally mark the seasonal lows in electric power consumption.

Construction Continues to Rise

Construction activity in June rose by 10 percent, to \$2.4 billion. Private residential construction accounted for almost half of this increase, though all major categories of construction recorded gains. As compared with last June, construction expenditures were up 20 percent,

with private building up 26 percent and public building up 5 percent.

The value of new construction put in place in 1950 is expected to aggregate \$26 billion, according to revised government estimates. This would be 14 percent above the revised estimate of \$22.6 billion of new construction in 1949. So far this year, construction outlays have been 17 percent above the first six months of last year, but government economists expect a seasonal downturn in the second half of 1950. Private home building is expected to amount to \$11 billion in 1950, 33 percent above the 1949 level.

Employment Up

Employment in June rose by 1.7 million, or 2.9 percent, to 61.5 million. This is only 130,000 below the record employment level of 61.6 million in July, 1948. Agricultural employment rose to 9.0 million, up seasonally by one million over the May level. Nonfarm employment was up 750,000 to 52.4 million.

Unemployment rose for the first time since February. At 3.4 million it was 300,000 above the May level but 400,000 below last June. However, the increase over May was considerably less than the expected seasonal rise and was due to the entry into the labor force of persons just out of school, many of them seeking temporary employment only. An encouraging sign is the reduction in unemployment among adult workers.

Manufacturers' Sales, Orders Up

Manufacturers' sales, seasonally-adjusted, rose 9 percent in May to a postwar high of \$20.1 billion. Durable-goods industries' sales were up 10 percent to \$8.8 billion, while sales of nondurable-goods manufacturers increased 8 percent to \$11.3 billion. Inventories rose slightly in both categories. Indicative of the boom in durable goods sales is the fact that nondurable-goods inventories, at \$17.3 billion, are just about level with inventory holdings last May, but the current \$14.2 billion worth of durable-goods inventories is 12 percent below the holdings in May, 1949.

New orders of manufacturers continued to rise in May, but this time the entire increase of 9 percent above April was concentrated in nondurable goods. Since the \$11.0 billion of new orders of nondurable goods in May exceeded sales, some increase in unfilled orders of these manufacturers was indicated.

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Full Employment Policy

Now that the scare of the '49 recession has completely passed, there is some tendency to regard all the government's efforts to reduce unemployment and aid distressed areas as just a mistake. This completes the swing, in the course of two years, from all-out efforts to combat inflation to careful searching for means of stopping the recession, and back again toward the opposite extreme. The lack of stability in attitudes and approach calls attention to the need for more clearly defined policy. We seem committed to action that would prevent both inflation and high unemployment. But we do not seem at all sure of just when such action should be taken or just what kind of action it should be.

Criteria for Action on Employment

The President's Council of Economic Advisers, in its January report, set a "maximum employment target" that would leave unemployment "not in excess of 2 or 2½ million." This was regarded as a range that represents neither a labor market so tight as to "produce general difficulties in labor supply" nor a volume of unemployment so large that "positive government action" would be called for. Purely as a goal for maximum employment, these figures offer little basis for quarrel. As criteria for action, they seem definitely lacking. For, with 2 million unemployed, some labor markets will be definitely tight while others are deficient in job opportunities; and with 2½ million unemployed, some labor markets will still be tight and the important question is still whether action is called for.

It should be evident that discussion of unemployment in these global terms has meaning only as an average or a seasonally adjusted total, since changes from month to month are affected by seasonal and other temporary factors, such as strikes. Placing too much emphasis on temporary fluctuations of this kind can only lead to wrong conclusions about the situation or its remedies. The same may be true when unemployment is concentrated in particular localities or occupations, as a result of conditions that cannot be corrected by action to increase the general level of employment. The situations in which the nature and location of unemployment, as well as its total volume, are important in determining the criteria for action are innumerable.

Even when attention is confined to the more general aspects, there are difficulties in defining employment goals. Thus, the absence of inflation or deflation in any situation does not ensure a sound employment situation. Unemployment can rise too far in a period of relative price stability; and shifts in employment do not necessarily coincide with changes in price levels. Inflation, for example, usually has a forward-looking quality, which relates only indirectly to conditions that increase employment; it focuses in areas where purchasers wish to be assured of supplies, and these may be "bottleneck" areas in which increased employment can do little over short periods to make additional supplies available.

Another approach to the problem is in terms of the effects of unemployment itself on the economy. Growing unemployment is feared as part of the process by which a decline cumulates. The worker who is unemployed loses his income and is forced to curtail his consumption; this in turn requires the reduction of output and employment elsewhere in the economy. Preventing this is the object of the Social Security program. By maintaining at least a moderate income for the unemployed worker and his family, it breaks the process of cumulative decline. In so doing, it extends the tolerable volume of unemployment and helps make possible, as in 1949, sustained consumption while income is falling.

Again, it is necessary to consider what represents suitable points for control action. Even the best of our stabilizing devices in other fields—thermostatic or mechanical—have limits of tolerance within which controls do not operate. The past two years of continuous boom have indicated that unemployment may fluctuate over a fairly considerable range without changing the basic situation. Taking drastic compensatory action when unemployment is still at a moderate level may subsequently prove self-defeating. Some of the things that may be done to prevent a decline can be done only once; and if they are done at a time when unemployment is only 2½ million, part of the ammunition that might be used to compensate a much more serious recession will have been expended. In short, there is an appropriate range of "no action" in unemployment policy as in other fields and that range includes volumes of unemployment somewhat above the desirable goal for maximum employment.

Dealing With Unemployment Problems

Measures for dealing with unemployment problems must be adapted to the kind of situation that prevails and to the nature of the unemployment that exists or is anticipated. Even when unemployment is moderate, so that job-creating action is unnecessary, there is still a need for facilitating transfers of individuals from one job to another. Such action is needed not only to enable those who want jobs to locate the jobs available but also to prevent local or industrial maladjustments in the labor supply. The complexity of our social organization allows the individual worker little opportunity to do anything about even this "normal" situation. From his point of view, either there are jobs for workers with his qualifications, or there are not, and that is all there is to it.

To a considerable degree the same considerations apply to business enterprises. The businessman may have no alternative to laying off workers in a decline; and if he is in a dying industry, one that is being displaced by new products, no government action to maintain total employment will meet his needs.

(Continued on page 9)

PLASTICS

During the postwar years, the manufacture of plastics has become one of the largest and most successful branches of the chemical industry. Most of the outstanding progress in the production of plastic materials has been made in the last decade, although celluloid, the first plastic, dates back to 1868 when it was developed as a substitute for ivory in billiard balls. Several other plastics, including Bakelite, were discovered before 1910.

Plastic Products — A Billion Dollar Industry

Although there are only about 30 producers of plastic materials in the country, there are over 3,500 manufacturers who convert these materials into a great variety of articles and parts for other products. In general, the manufacturers of plastic materials do no finishing work, but ship their products in the form of sheets, rods, flakes, or liquids to the processors.

The production of plastics has increased more than 600 percent in the past ten years. With a total 1949 production of 1.5 billion pounds, the annual tonnage of plastic materials now exceeds that of most of the nonferrous metals, including aluminum. At their present rate of expansion, the plastics will soon surpass even copper, the largest of the nonferrous group.

Two of the leading corporations in the industry manufacture plastic materials in Illinois. The Bakelite Division of the Union Carbide and Carbon Corporation has a plant at Ottawa, and the United States Rubber Company manufactures plastics in Chicago.

There are many different methods of fabricating finished plastic products. Raw plastics may be extruded into continuous tubing or filaments or they may be heated and rolled into film or sheeting. Liquid plastics are used as protective coatings and as adhesives in laminating layers of cloth, paper, or wood. Other processes include injection molding, casting, bonding, and coating.

The record output of plastic products last year was slightly above the 1948 level, and it is expected that the rapidly growing industry will hit new highs this year. A product value of over \$1 billion is predicted for 1950, double the 1947 figure.

In 1947 the Census of Manufactures ranked Illinois third in the production of plastic products with a product value of \$56 million, about 11 percent of the \$503 million total for the nation. At that time there were about 150 Illinois firms in the industry, concentrated in Chicago.

Today the manufacture of plastic products and parts is one of the State's fastest growing industries, and more and more Illinois manufacturers are turning to plastics as industrial materials. It is important, therefore, that consumers and businessmen become familiar with the plastics family and its promise for the future.

Primary Plastics Materials

There are about 15 major types of plastics, or synthetic resins, most of them discovered in the past twenty years. They are either of the thermosetting type, whose

products are formed by heat and pressure into final irreversible shapes, or they are thermoplastic and can be shaped under heat, hardened by cooling, and remelted and reformed at will.

Thermosetting plastics are the heavy industrial plastic materials. They include the phenolics, caseins, melamine, and urea. The oldest and most versatile have been the phenolics, the first and most popular of which was Bakelite. Phenolic plastics are widely used for such products as television and radio cabinets and washing-machine agitators. Urea and melamine have been popular for small molded products such as tableware and buttons and are increasingly used in textile and paper treating.

There are two types of thermoplastics, the cellulose and the synthetics. The former are partly a natural product, the result of the reaction of chemicals and cellulose from cotton or wood pulp. They were among the first plastics and have been familiar materials in toothbrushes, sunglasses, and transparent packaging.

The cellulose, however, have been largely superseded by a new group of completely synthetic thermoplastics, the fastest growing branch of the plastics family. The most familiar of these new products are nylon, the vinyls, and acrylics such as Plexiglass and Lucite.

Among the most versatile of the plastics are the vinyls. They have revolutionized the production of phonograph records, and are widely used in the manufacture of garden hose, upholstery, screens, and film and sheeting items for food packaging, curtains, and raincoats.

Vinyl compounds have led the plastics industry in recent years, but a newcomer named polyethylene seems likely to take over in popularity. Invented in 1943, polyethylene is the fastest growing synthetic plastic. Tough and waxy, it can be blown like glass into squeezable bottles, and comes in forms ranging from semi-rigid unbreakable kitchenware to films for moisture-proof bags.

Synthetic Fibers

Although it is not usually classified as a plastic, rayon was the pioneer in the synthetic textiles field. Nylon, put on the market in 1939, was the first of the completely synthetic fibers and was so successful that the development of new man-made fabrics has become a major concern of the chemical industry.

Orlon and Dynel, two of the most promising of the new synthetic yarns, will be ready for commercial production this fall. Dynel varies in weight from soft cashmere to coarse wool and is shrink-proof, fire-resistant, and immune to insects and deterioration. Orlon is similar to silk in its filament form and is quick-drying, wrinkle-resistant, and porous. As a wool-like staple it takes a lifetime crease and is expected to become a popular material for men's and women's suits.

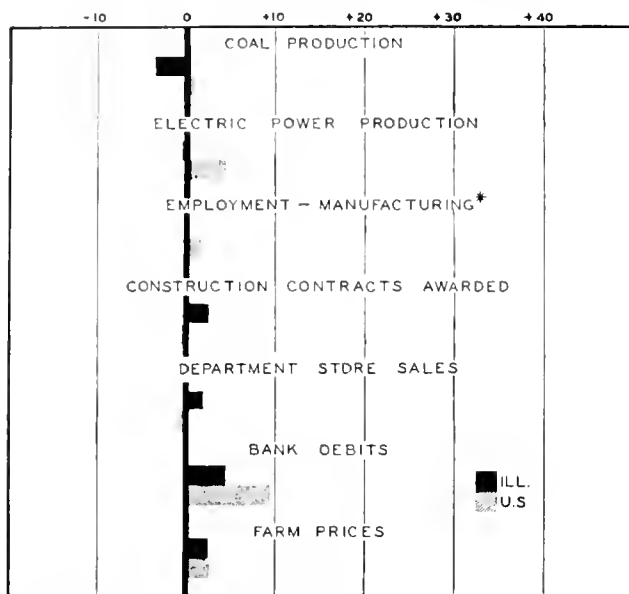
Synthetic fibers are only one of many examples of the diversity of plastic materials and products that has caused their manufacture to be regarded as one of the nation's outstanding growth industries.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage Changes April, 1950, to May, 1950



* Figure for Illinois not available.

ILLINOIS BUSINESS INDEXES

Items	May 1950 (1935-39 = 100)	Percentage Change from	
		April 1950	May 1949
Electric power ¹	265.4	-0.3	+10.5
Coal production ²	117.9	-3.3	+5.1
Employment—manufacturing ³	n.a.		
Payrolls—manufacturing ³	n.a.		
Dept. store sales in Chicago ⁴	229.2 ^a	+1.4	-1.0
Consumer prices in Chicago ⁵	175.3	+1.4	+0.6
Construction contracts awarded ⁶	555.0	+2.4	+83.3
Bank debits ⁷	291.8	+4.2	+5.8
Farm prices ⁸	229.7	+6.2	+2.4
Life insurance sales (ordinary) ⁹	201.9	+9.2	+12.7
Petroleum production ¹⁰	240.7	+0.8	-1.6

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Repts.; ⁹ Life Ins. Agency; ¹⁰ Ill. Geol. Survey.
^a Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	May 1950	Percentage Change from	
		April 1950	May 1949
Annual rate in billion \$			
Personal income ¹	213.3 ^a	-0.2	+1.5
Manufacturing ¹			
Sales.....	241.2 ^a	+8.6	+13.6
Inventories.....	31.5 ^{a, b}	+1.0	-6.2
New construction activity ^{1, *}			
Private residential.....	11.8	+15.0	+52.9
Private nonresidential.....	7.9	+9.0	-2.8
Total public.....	7.0	+15.6	+5.4
Foreign trade ¹			
Merchandise exports.....	9.9	+2.0	-24.5
Merchandise imports.....	7.9	+13.2	+22.0
Excess of exports.....	2.0	-27.0	-70.1
Consumer credit outstanding ²			
Total credit.....	19.1 ^b	+2.6	+20.5
Installment credit.....	11.7 ^b	+3.1	+31.3
Business loans ²	13.4 ^b	-0.5	-0.9
Cash farm income ³	21.1	+13.9	-8.2
Indexes (1935-39 = 100)			
Industrial production ²			
Combined index.....	193 ^a	+1.6	+10.9
Durable manufactures.....	228 ^a	+2.7	+13.4
Nondurable manufactures.....	181 ^a	+0.6	+12.4
Minerals.....	143 ^a	+2.1	-1.4
Manufacturing employment ⁴			
Production workers.....	152 ^a	+2.2	+3.8
Factory worker earnings ⁴			
Average hours worked.....	106	+0.5	+3.4
Average hourly earnings.....	241	+0.5	+2.9
Average weekly earnings.....	256	+1.0	+6.3
Construction contracts awarded ⁵	570	-0.2	+53.1
Department store sales ²	291 ^a	-0.3	0.0
Consumers' price index ⁴	169	+0.8	-0.4
Wholesale prices ⁴			
All commodities.....	194	+2.0	+0.1
Farm products.....	217	+3.4	-4.0
Foods.....	202	+3.0	-2.4
Other.....	182	+0.8	+0.5
Farm prices ³			
Received by farmers.....	231	+2.5	-2.4
Paid by farmers.....	203	+1.2	+0.4
Parity ratio.....	97 ^c	+1.0	-3.0

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b As of end of month. ^c Based on official indexes, 1910-14 = 100. * Data revised; not comparable with figures in previous issues.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1950					1949
	June 24	June 17	June 10	June 3	May 27	June 25
Production:						
Bituminous coal (daily avg.).....thous. of short tons.....	1,770	1,740	1,768	1,689	1,681	1,989
Electric power by utilities.....mil. of kw-hr.....	6,102	6,012	5,921	5,632	5,894	5,466
Motor vehicles (Wards).....number in thous.....	196.3	195.6	191.4	138.4	179.1	145.4
Petroleum (daily avg.).....thous. bbl.....	5,276	5,269	5,228	5,128	5,041	4,889
Steel.....1935-39 = 100.....	216.1	215.9	216.3	216.7	217.4	174.3
Freight carloadings.....thous. of cars.....	810	806	796	710	781	803
Department store sales.....1935-39 = 100.....	250	302	302	261	282	247
Commodity prices, wholesale:						
All commodities.....1926 = 100.....	157.1	156.7	157.4	156.8	156.1	153.5
Other than farm products and foods.....1926 = 100.....	148.3	148.3	148.2	147.7	147.6	145.4
28 commodities.....August, 1939 = 100.....	264.4	262.9	269.4	266.9	263.5	230.3
Finance:						
Business loans.....mil. of dol.....	13,532	13,459	13,394	13,359	13,359	13,292
Failures, commercial.....number.....	147	178	164	168	214	196

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Still Booming

Production of durable goods is still the main factor in booming business activity. The steel industry, operating at more than rated capacity, turned out nearly 2 million tons of castings and ingots weekly during the month and still failed to keep ahead of the demand. At least three steel producers—Republic, Bethlehem, and National—have recently announced plans for plant expansion to boost their output. Construction work, automobiles, and machinery are taking the lion's share of the record steel output. The automotive industry, still confounding pessimists with no apparent sag in the postwar market as has been suffered by other industries, continues to set new records with nearly 200,000 units turned out weekly. June production is put at more than 850,000 cars and trucks, and the six-month total at more than 3,750,000 vehicles. Sales of machine tools are also staying high as manufacturers modernize their plants to keep pace with new developments.

Plant Expenditures Turn Up

Revised estimates of industrial spending on new plant and equipment reflect the high level of business activity. Whereas businessmen were inclined to discount the boom somewhat at the first of the year and consequently cut down projected capital expenditures, their renewed optimism is now indicated by sizable upward revisions in planned additions to producers' equipment for all major industries except mining. A joint Department of Commerce-Securities and Exchange Commission survey shows that second quarter outlays were expected to total \$4.5 billion, 6 percent higher than previously estimated and only \$130 million below expenditures in the second quarter of 1949. Moreover, the shift upward is now expected to continue into the third quarter, contrary to previous

forecasts. Strike-caused shortages of capital goods may have been partly responsible for the drop in the first quarter and unfulfilled projects added to anticipated expenditures for subsequent quarters.

As shown in the accompanying chart, outlays by manufacturing firms account for the largest portion of total expenditures and are generally being well maintained or expanded. Expenditures by the mining and transportation industries, though still below last year, are rising. It has been reported that the Association of American Railroads will soon recommend to rail carriers that they add about 40,000 gondola and flat cars, at a cost of some \$200 million, to meet the requirements for these types of cars. Utilities continue to make the strongest showing, with second and third quarter planned expenditures above the corresponding periods of 1949 and only slightly below the peak fourth quarter.

Employment Gains

Contrary to pessimistic expectations for employment of the June high school and college graduates, unemployment rose 327,000, much less than the expected seasonal increase which occurs at the end of the school year, but remained below the June, 1949, level. Employment jumped by 1.7 million to a total of 61,482,000, just under the July, 1948, peak of 61,615,000 workers. Most of the gain in employment was seasonal, as farm and construction work increased, but some of it directly reflects improved business conditions. Nonagricultural employment, at 52,436,000, was exceeded only by the months of July and August, 1948. Census data, in thousands of workers, are as follows:

	June 1950	May 1950	June 1949
Civilian labor force	64,866	62,788	63,398
Employment	61,482	59,731	59,619
Agricultural	9,046	8,062	9,696
Nonagricultural	52,436	51,669	49,924
Unemployment	3,384	3,057	3,778

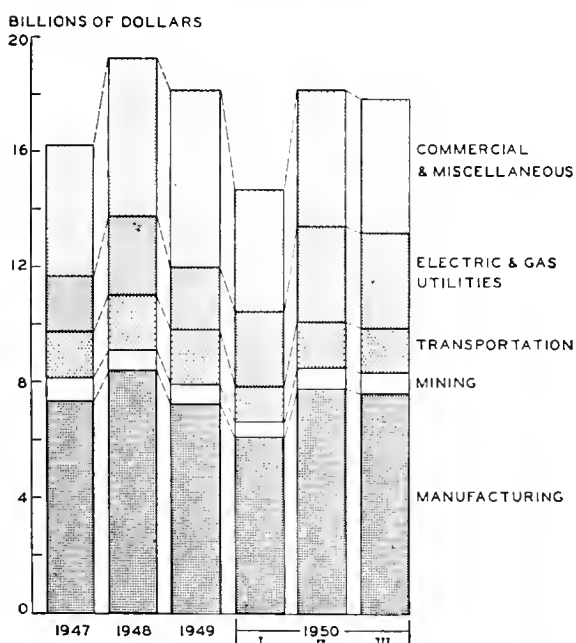
Weekly earnings for production workers rose again in May for the sixth consecutive month. An increase of 57 cents for 11.8 million manufacturing employees raised the average to \$57.50, a new record. Most of the gain from April was attributed by the BLS to lengthened working hours in primary metals, durable machinery, and home building supplies industries. In May, 1949, average weekly earnings were \$54.08. Hours worked for all manufacturing averaged 39.9 in May, 1.3 hours over May, 1949.

Rent Control and Record Construction

A short-term extension of rent control was approved by the Congress and the President in June. The new bill extends controls to December 31, 1950, and gives cities authority to keep controls for an additional six months if they choose. If no positive action is taken by the municipalities, however, rent regulations will expire at the end of the year.

Residential construction continued to expand in May and set a new monthly record of 140,000 dwelling units started. The five-month total of 538,000 housing starts equals last year's total for the first seven months. Dollar value of new private nonfarm housing for the first half, at \$5.1 billion, was nearly 50 percent higher than outlays in the first six months last year. Total expenditures for the year are expected to be about a third higher.

CAPITAL EXPENDITURES BY BUSINESS
(at annual rates)



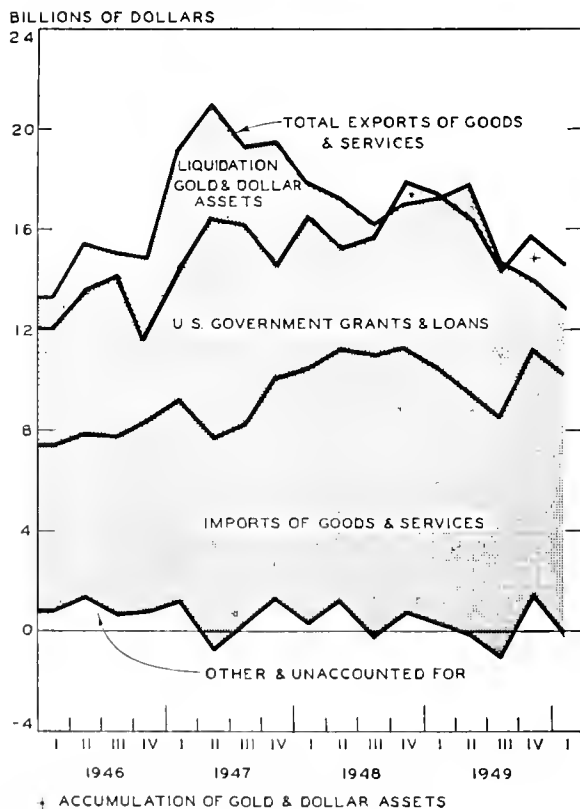
Source: U. S. Department of Commerce; Securities and Exchange Commission.

Thomas S. Holden, President of F. W. Dodge Corporation, believes that the current high level of construction mainly reflects economic growth factors in the United States and that, in consequence, the present demand is well-supported. It is pointed out, too, that even the record dollar volumes in 1948 and 1949 absorbed only about 9 percent of the national income as compared with 15 percent in the previous peak years of the later 1920's. Mr. Holden, however, appears to expect that there will be a shift of some degree from home building, as demands for housing are met, to industrial and other nonresidential building.

Trade Gap Narrows

The most recent data on the U. S. balance of payments indicate that the gap between exports and imports of goods and services narrowed still more in the first quarter. The difference of \$2.6 billion was the smallest since the end of the war and \$10 billion below the postwar peak. As shown in the chart, an increasing proportion of our exports is paid for with imports and a decreasing percentage is supported by government grants and loans to other countries. Some of the shift is attributed to the recovery of imports, which are closely related to the level of industrial activity in the United States, but the main factor has apparently been a decline in our exports as foreign countries lessened their abnormal dependence on U. S. production and began to produce for exchange among themselves. For instance, whereas only about 40 percent of our exports was paid for with imports at mid-1947, in the first quarter this year nearly 80 percent was financed with imports; in the prewar years 1935-39, imports paid for about 85 percent of our exports.

HOW U. S. EXPORTS ARE FINANCED



Source: U. S. Department of Commerce, Office of Business Economics.

Errors and omissions, which ranged as high as \$522 million in the second quarter of 1947, are combined in the chart with private investment, which amounted to no more than \$468 million in any one postwar quarter. In consequence, a negative figure appears in four quarters as the recorded means of financing exports in those periods exceeded recorded exports.

The accumulation of gold and dollar reserves by foreign countries, especially the ERP nations, is a noteworthy aspect of these developments. Even though such reserves for Marshall-Plan participants have increased by \$600 million since devaluation, total reserves of \$6 billion at the end of the first quarter were substantially the same as at the beginning of ERP and were still more than \$2.5 billion below reserves at the end of the war. The Department of Commerce in its report points out that ERP countries are still operating with reserves equal to less than the value of a quarter's imports, whereas in prewar years their reserves were about equal to the value of 9 months' imports.

Manufacturers' Sales Increase

A further increase in manufacturers' sales occurred in May to bring total monthly sales to \$19.4 billion, more than 10 percent over May, 1949. After seasonal adjustment, sales amounted to \$20.1 billion, 9 percent above April and a postwar record. Durables gained by 18 percent, nondurables by 10 percent.

Inventory book values also increased in May, contrary to their usual movement for the month. About two-thirds of the \$300 million rise appeared in durable goods but was generally shared among hard-goods-producing industries. The rise of \$100 million in soft goods was concentrated mainly in textiles.

New orders, after dropping off somewhat in April, recovered to reach a total of \$19.5 billion in May, 5 percent over the previous month. The entire increase occurred in nondurable goods, which have generally been lagging behind the stronger durable-goods segment.

Retail sales, seasonally adjusted, were up slightly from April, rising to a total of \$11.2 billion. Chief factors were expanded residential construction and automobile sales in the durables group. Other categories of durables were marked by small decreases. In total, nondurables sales rose only slightly with small contrasting movements appearing among the various subgroups.

Prices Up Slightly

The BLS wholesale price index rose fractionally during June to 157.0 (1926 = 100) in response to a slight increase in prices of all commodities other than farm products. Textile products and building materials were the main causes of the rise. Farm products and foods were subject to contrasting movements, with farm products dropping 1.5 percent and foods rising 0.7 percent.

Agricultural prices remained virtually level during the month ended June 15. Prices paid rose 1 point to 255 (1910-14 = 100) as living costs, especially food prices, rose. Prices received showed no change at 247 percent of the base period average. The parity ratio remained at 97.

Consumer prices advanced for the fourth month from April 15 to May 15. A 0.8 percent increase to 168.6 percent of the 1935-39 average was caused mainly by a 1.9 percent increase in food prices, although rents and miscellaneous goods and services also were up fractionally. The rise of 0.8 percent is the largest in a year during which the index has varied only between 166.5 and 169.6.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Plastics Handbook

The 1950 edition of the Modern Plastics Encyclopedia and Engineers' Handbook has been issued by Breskin Publications. A well-known reference work of the plastics industry, it provides comprehensive coverage of all phases of plastics design and production and has been especially prepared for use by manufacturers, engineers, and industrial designers who are using or contemplate using plastic products, films, coatings, or component parts.

Labor Statistics Report

The Bureau of Labor Statistics has collected recent salary data for more than 20 office occupations in eleven major cities. These data, which are being published in bulletin form, will include a summary of work schedules, paid vacations, paid sick leave, paid holidays, nonproductive bonuses, and insurance and pension plans financed, at least in part, by the employer. Bulletins are now available for eight of the cities, including Chicago and Indianapolis.

Galvanizing Compound

A cold galvanizer designed to protect iron and steel from rust and corrosion is being produced by the Zinkrich Company, Incorporated. It gives as complete protection as hot-dipping methods, yet can be applied with a brush or spray. Large, built-up steel and iron structures can now be galvanized without being dismantled and transported to hot-dipping facilities, and the welded seams and fittings of previously galvanized sheets can be protected after construction. The compound is also useful in touching up hot-dipped galvanized material that has been worn or damaged.

1949 Manufactures Survey

The Bureau of the Census has announced that many of the figures published in the 1947 Census of Manufactures will be brought up-to-date by a sample survey covering 1949 developments. The survey will provide summary Census statistics on all important industries for the United States, most of the states individually, and all important industrial counties and metropolitan areas. It is expected to be available by late 1950.

Industrial Coatings

The makers of Johnson's Wax have developed a new wax coating that gives aluminum, steel, and other metals a dry coating that is resistant to salt spray, high humidity, and outdoor exposure. It is easily applied by dipping, brushing, or spraying and leaves a transparent film that cannot be removed by handling but may be wiped off with ordinary solvents.

A coating that makes aluminum outwear case-hardened steel is being produced by the Glenn L. Martin Aircraft Company. Applied by an electro-chemical process, it makes possible the use of aluminum for items formerly requiring heavier metals. It was designed to take advantage of lightweight aluminum in aircraft manufacture, and the company is already substituting aluminum coated with the new finish for steel in many moving parts of its products.

Low Pressure Boiler

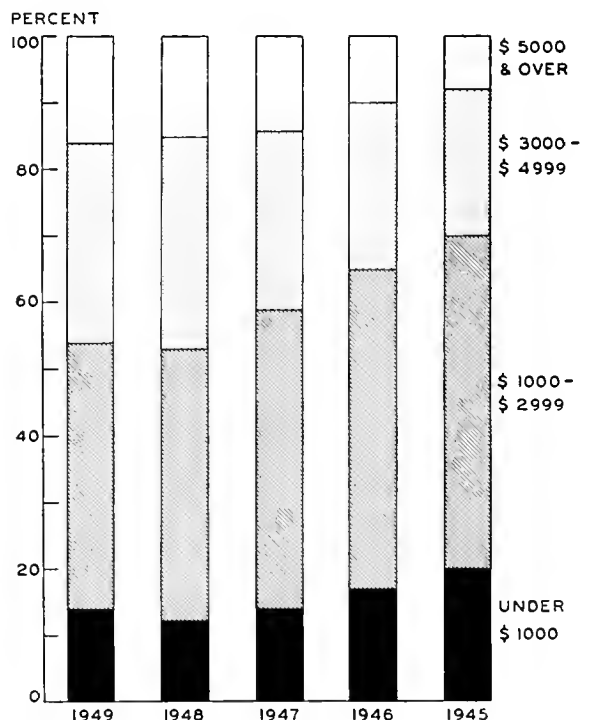
Production of a low-pressure, high-temperature heating boiler has been announced by the Livingstone Engineering Company, Worcester, Massachusetts. The boiler produces steam with a special liquid that can be delivered and circulated through ordinary piping and functions like water except that its boiling point is much higher.

Consumer Finances

The fifth annual Federal Reserve Board Survey of Consumer Finances, which was conducted in the first two months of 1950, reveals that the general financial position of consumers appears to have been fairly well maintained during the economic readjustments of 1949. The Survey, reported in the June issue of the *Federal Reserve Bulletin*, showed that consumers' plans to buy durable goods at the beginning of 1950 were as extensive as buying plans reported in early 1949. Frequency of spending in excess of current income was at its highest level in the postwar period, however. A poll of consumer opinion disclosed that about as many consumers believed that their financial position had improved during the year as believed that it had worsened.

Although personal incomes remained high, as shown by the chart, for the first time in the postwar period an increase occurred in the proportion of low-income spending units. The percentage of intermediate incomes declined from 55 in 1948 to 51 last year, but there was almost no change in the proportion of units with incomes over \$5,000. The number of families reporting year-to-year increases in income was the smallest of the postwar period.

INCOME GROUPING OF SPENDING UNITS



Source: *Federal Reserve Bulletin*.

PROPOSED REVISION OF NATIONAL FARM LEGISLATION

H. C. M. CASE, Head, Department of Agricultural Economics

College of Agriculture, University of Illinois

Wartime regulations under the Steagall amendment extended, at 90 percent of parity, price supports for selected farm products for two years after the declared end of the war or until January 1, 1949. The 1948 Hope-Aiken Act sought to replace high fixed price supports with flexible price supports. This Act was replaced by the 1949 Anderson Act, which delayed making the flexible price support feature fully operative until January 1, 1952.

At the present time the government has invested approximately \$4 billion in loans and purchases of corn, wheat, cotton, dried milk, butter, eggs, and potatoes. The storage of farm products is continuing. Current high price supports tend to encourage production, adding to excessive supplies. This accumulation of products will make it difficult for any farm program to operate successfully. If government holdings of farm products continue to increase, present farm legislation may prove ineffective.

Objectives of Sound Farm Programs

With this situation confronting agriculture, it is well to consider what should be the major objectives of a sound farm program. Current experience indicates that high fixed price supports require the use of controls which tend to prevent the interaction of supply and demand as the principal guide to production. In the past the operation of supply and demand has encouraged farm production on the best adapted soils and in the best locations. Also, the initiative of farmers in achieving efficient production free of governmental controls has been a major factor in our national economy. This helped to release more than 80 percent of our workers to produce goods other than food and to render other services. Looking to the future, we need to emphasize the maintaining of desirable features established from past experience and to develop agriculture in a way which will contribute to a sound national economy, improve the diet of consumers, and encourage international trade outlets for farm products on a sound exchange basis.

Specifically, the following program is presented as a means of encouraging the adoption of cropping systems that will (1) conserve and develop soil resources to meet present and future needs; (2) help to prevent agriculture from contributing to an unbalanced national economy; (3) maintain and develop the initiative of farmers to follow efficient production methods; (4) make government control of agriculture unnecessary; and (5) reward farmers for definite constructive accomplishment instead of resorting to production and marketing controls.

Major Issues in Revising Farm Programs

Experience suggests four major points of attack upon farm production and human nutrition problems.

1. *Encourage the adoption of cropping systems to conserve and develop soil resources to meet present and future needs.* The major proposal of this discussion emphasizes this point.

2. *Provide price-support floors to protect farmers in periods of severe depression.* A price support is to the farmer what a minimum wage is to a laborer. For a limited number of products, the level of the support floor would be between 50 and 75 percent of parity, but because of their different characteristics the same level

of price support does not seem to be desirable for all supported products. Tobacco might be an exception, with continued higher price supports and controlled production, because of its position as a producer of state and Federal revenue and because of the fact that it uses so small a part of the total land area.

3. *Help operators of uneconomic-sized farm units to make the adjustments needed to improve their economic situations.* The problems of uneconomic farm units should be treated as a program separate from a farm price support or soil conservation program for the 50 percent of farms that produce only 10 percent of the farm products sold. The criticism is made that some farms have become too large (or that their type of organization and operations interferes with the best use of our resources). In general, the approach to this type of problem might be accomplished through progressive income taxes, which already have gone far in distributing income among our total population. It may be better, therefore, to seek the regulation of large units through taxation than to place restrictions on them which discourage efficient production.

4. *Encourage improved dietary habits.* Changes in dietary habits are to a considerable extent a matter of education. The school lunch project is undoubtedly doing much toward establishing improved food habits for the oncoming generation. If good food habits could be established for our entire population, together with regular employment conditions, most "surplus" farm products would be consumed in a better standard of living.

Proposed Program For Agriculture

This program has two major features: (1) the use of price supports will be limited to providing a floor under prices for major farm products at 50 to 75 percent of parity, to prevent a collapse in farm prices in depression periods; and (2) to make payments to farmers to stabilize farm income. These payments would be dependent upon good land use. This would be accomplished by paying farmers for leaving tillable land in grass or legumes (or fallow where grass and legumes are not normally grown). This might be regarded as paying a rental to farmers who desire to cooperate on a voluntary basis in building up their soil resources (a rental for the land being conserved). For example, in many of the best land areas not over 10 to 15 percent of the tillable land is left in grass and legume hay or pasture crops. However, in the interest of permanent agriculture a minimum of 20 to 25 percent of the land in these areas should be used for such crops.

An advantage of the plan is that a standard of performance would be established for each county. The average performance in a county, as shown by the 1950 Census, would be used as a standard for that county. A farmer would not be paid for average land use but only for raising the level of sound land use. In brief, this plan would base payments to farmers on the percentage of tillable land grown to grass and legume hay or pasture crops in excess of the average amount grown in the county. In dry land farming areas the payment might be based on land left in both grass and fallow. Furthermore, the rate of payment would increase as the percentage of

duced in the county. This is a brief outline of a proposed new approach to the "agricultural problem."

Advantages of the Proposed Plan

The advantages of the proposed plan are:

1. It would reward the farmer for caring for his soil and following good farming practice. Improving soil productivity would help to reduce production costs, as well as to insure adequate future production at low cost.

2. Increasing the payment at an accelerated rate as the percentage of tillable land in hay and pasture increases would encourage a farmer to raise his acreage of soil-improving crops to an optimum level.

3. A reasonable price-support floor under staple farm products would replace high price supports and serve to protect farmers from a price collapse. The payment for tillable land in hay and pasture crops would serve as the major incentive to farmers to direct production on a voluntary basis and would eliminate the need to rely on controls except when prices fall to the price-support floors. The need for controls on production or marketing would thus be held to a minimum.

4. The plan should materially reduce the costs of administration, because only the acreage of tillable land in hay and pasture (and fallow) would need to be determined.

5. Market prices determined by supply and demand would serve as a guide to farmers in deciding the proportions of different products to produce.

6. Putting more land into hay and pasture would encourage the production of more livestock and thus help to improve the diet of consumers.

7. Instead of encouraging the storage of excessive supplies which tend to depress current prices, the plan would store future production in the soil itself (or in the form of livestock) and thus provide an ever-normal future granary.

8. The program would help to insure a better-balanced national economy.

9. The cost of the program would be limited by the appropriations made to support it.

Percent of tillable land in hay and pasture	Payments for added acreage in hay and pasture	Cumulative payments for added acreage
12.....	\$ 0	\$ 0
13.....	2	2
14.....	4	6
15.....	6	12
16.....	8	20
17.....	10	30
18.....	12	42
19.....	14	56
20.....	16	72
21.....	18	90
22.....	20	110
23.....	22	132
24.....	24	156
25.....	26	182

tillable land in hay and pasture on a given farm was increased above the average percentage for the county. For example, assume that in a Corn-Belt county 12 percent of the tillable land is grown to hay and pasture but that 25 percent is regarded as desirable for hay and pasture. Payment to farmers would be graduated accordingly. An illustrative schedule of payments based on 100 acres might be as shown above:

This rate of pay illustrates the principle of the proposed plan rather than the desirable rate of payment. Payments to farmers under this plan could be adjusted from year to year for changes in the general price level, with the objective of helping to maintain total agricultural income on a basis that would keep agriculture in balance with the total economy. Even though it might be necessary to make adjustments in Federal appropriation of funds to make up for low farm income in the previous year, Congress might increase the appropriation for a new year as a post-payment to help maintain a healthy agricultural situation which would contribute to the national economy. Naturally, the rate of payment should vary from county to county depending upon the value of the agricultural production of the county and its degree of sound land use. A means of determining the amount of payment available to a county would be to consider the average long-time value of agricultural products pro-

Full Employment Policy

(Continued from page 2)

Similarly, in particular localities whose major activities are in a declining phase, shifts of both business and labor may be extremely difficult; and any substantial shift away from the area may aggravate the problems of those remaining. There is much to be said in these circumstances for "distressed area" programs to develop sound opportunities for production and employment within the area.

Many of these special unemployment problems must be regarded as the proper sphere of the Employment Service. Transferring workers to the jobs that are offered is its basic function; and in the ideal, it should be organized to retrain workers and to promote necessary shifts from easy to tight labor markets and thus facilitate adjustment of the labor supply to the work available.

Only when changes in employment are large and general, in the broad sweeps of the business cycle, is large compensatory action called for. When inflation threatens, it is obviously desirable to apply restraints, as by cutting

government expenditures. If spending cannot be cut, tax increases may produce the desired effect; and ultimately, if spending continues to increase beyond the limits of taxation, as in wartime, there may be no alternative to price controls and rationing. When depression threatens, the opposite types of action are called for. Measures that will facilitate or stimulate private activity are clearly the first resort. Unemployment compensation automatically comes into play, but is unable to hold the line. It could be made more nearly adequate by extending it to cover almost all workers and to utilize accumulated reserves fully in the event of a major decline, but it could not entirely solve the problems of a serious depression. Ultimately, there may be no alternative to the expansion of government employment programs.

Today, we view the business scene optimistically. If Korea remains a local incident, there seems little danger of serious inflation. Deflation, on the other hand, seems unlikely to be faced in the near future. Do we, therefore, have good reason to defer needed action? Or are we merely leaving the leaks in the roof for another day? VLB

LOCAL ILLINOIS DEVELOPMENTS

Gains were noted in most Illinois business indicators in May. Construction contracts value, at \$92 million, was the second highest monthly figure on record. Department store sales in the State were 6 percent above April and 3 percent above last May. Coal and electric power production, down slightly from April, were well above the May, 1949, level.

The Illinois Department of Labor reported total manufacturing employment in May at 1,138,000, up 0.5 percent from April and also slightly above last year. The rise was concentrated in the durable goods industries, principally metal products and machinery manufacturing. Greatest gain was reported by the Peoria-Pekin area, with Champaign-Urbana, Danville, Joliet, Kankakee, Quincy, and Springfield also showing significant gains.

Construction

Construction contracts awarded in the State in May approximated \$92 million, 2 percent above last month's high and 83 percent greater than last May. Total building during the first five months of 1950 was 43 percent greater than in the same period last year. Residential building more than doubled during the period.

Value of building permits issued in 20 Illinois cities in May was 18 percent above April and 54 percent greater than last May. Belleville, East St. Louis, and Elgin reported the greatest monthly gains.

The Chicago Association of Commerce and Industry reported that investment in industrial plant facilities in the Chicago Industrial Area in June aggregated \$21 million, bringing the total for the first six months to \$140 million.

The Texas-Illinois Natural Gas Pipeline Company will soon start construction of a new 1,331 mile pipeline from Texas to terminals near Joliet and Volo, Illinois. The line will cost \$117 million and is to be finished by the end of 1951. Illinois Power Company was recently authorized to install and operate a \$130,000 gas distribution system at Columbia, and the Union Electric Power Company was empowered to extend its gas distribution line from Alton to Godfrey.

Bids on \$1.3 million worth of road improvements in 13 counties were announced by the State Highway Department in June.

Motor Products Corporation, Deepfreeze Unit, at North Chicago has purchased 50 additional acres of land and is constructing a factory unit of approximately 300,000 square feet. American Cyanamid is beginning construction of a \$3 million plant in East Chicago. The new plant will be used for producing cracking catalysts and will increase the company's capacity for producing synthetic catalysts by more than 50 percent.

Prices

The index of consumers' prices in Chicago on May 15 was 175.3 percent of the 1935-39 level, up 1.4 percent from mid-April and 0.6 percent above May, 1949. The increase was due in large part to a rise in food prices. Peoria and Springfield also reported advances in food prices. The Peoria index of retail food prices in mid-May was 214.3 percent of the 1935-39 average, 2.6 percent above mid-April and 0.9 percent above last May. The Springfield food price index rose 3.5 percent during the month and on May 15 was 209.0 (1935-39 = 100).

The all-commodity index of prices received by Illinois farmers rose to 256 percent of the 1910-14 base on May 15. This was a 6-percent gain over April and was due to increases in prices of both crops and livestock products. Meanwhile, the over-all index of prices paid by farmers rose only one percent to 254, resulting in a parity ratio of 101, the highest since September, 1949.

1948 Census of Business — Illinois

The dollar volume of trade in Illinois retail, wholesale, and service establishments more than tripled in the 9-year period, 1939-48, according to preliminary figures from the 1948 Census of Business, recently released. (See chart.) A large part of the increase was, of course, due to the higher price level in 1948.

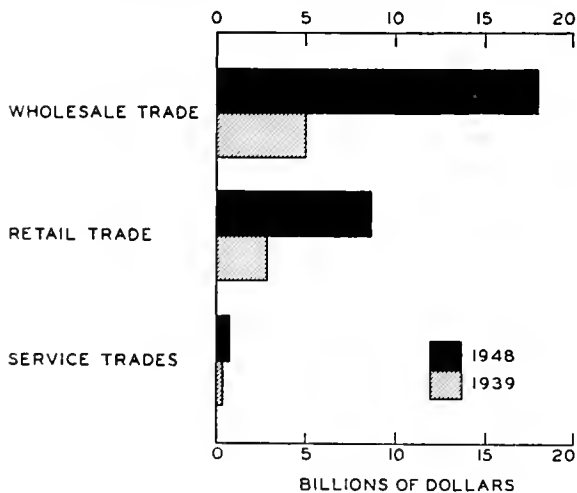
Total retail sales in the State in 1948 aggregated \$8.8 billion, an increase of 207 percent over the \$2.9 billion in 1939, the date of the preceding Census of Business. Wholesale sales rose 260 percent over the same period, reaching a total of \$18.0 billion in 1948 as compared with \$5.0 billion in 1939.

The importance of Chicago as a wholesale market is brought out by the chart, which shows that total 1948 wholesale sales in the State were approximately double retail sales. Nationally, retail sales in 1948 were in excess of total wholesale sales.

Service trades included in the Census showed receipts totaling \$748 million in 1948 as compared with \$264 million in 1939, an increase of 183 percent. Hotel receipts increased from \$69 million in 1939 to \$148 million in 1948, and receipts of amusement businesses reached \$170 million in 1948, compared with \$76 million in 1939.

A total of 207,000 additional employees were added to the payrolls of firms covered by this Census during the 9-year period. Retail trade establishments reported 484,000 full- and part-time paid employees for the work week ended nearest November 15, 1948, as compared with 353,000 in 1939. Employment in wholesale trade establishments rose from 126,000 to 180,000 over the same period. Paid employees in the service trades covered by the Census numbered 100,000 in November, 1948, which exceeds the 1939 figure by 28 percent.

**WHOLESALE, RETAIL, AND SERVICE TRADES
RECEIPTS, ILLINOIS, 1939 and 1948**



Source: 1948 Census of Business.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

MAY, 1950

	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS	\$27,416 ^a	761,338 ^a	\$362,430 ^a		\$9,095 ^a	\$10,750 ^a
Percentage Change from.... {Apr., 1950....	+17.7	+2.4	-2.2	+6.2	+4.2	-1.2
{May, 1949....	+53.9	+9.1	n.a.	+3.3	+5.8	+6.5
NORTHERN ILLINOIS						
Chicago	\$18,491	599,213	\$333,041		\$8,256	\$9,352
Percentage Change from.... {Apr., 1950....	+19.8	+2.8	-2.7	+6.3	+3.6	-2.3
{May, 1949....	+51.2	+7.7	n.a.	+3.0	+6.5	+5.7
Aurora	\$ 650	n.a.	\$6,113		\$ 35	\$ 82
Percentage Change from.... {Apr., 1950....	-36.5		+6.0	+5.2	+8.2	+0.8
{May, 1949....	+51.9		n.a.	+6.0	+10.8	+18.5
Elgin	\$ 340	n.a.	\$4,664		\$ 24	\$ 65
Percentage Change from.... {Apr., 1950....	+74.4		+4.0	+5.6	+5.3	+10.1
{May, 1949....	-11.7		n.a.	+10.1	+12.3	+19.6
Joliet	\$ 796	n.a.	n.a.		\$ 39	\$ 64
Percentage Change from.... {Apr., 1950....	+38.7			+19.6	+7.7	+4.9
{May, 1949....	+218.4			+2.3	-0.4	+39.0
Kankakee	\$ 227	n.a.	\$4,098		n.a.	\$ 26
Percentage Change from.... {Apr., 1950....	+40.1		+3.6	+8.1		-10.6
{May, 1949....	+191.0		n.a.	+0.5		+4.5
Rock Island-Moline	\$1,276	15,549	n.a.		\$ 32 ^b	\$ 139
Percentage Change from.... {Apr., 1950....	+32.6	-0.9		n.a.	+15.3	+25.2
{May, 1949....	+12.2	+11.9			+26.7	+16.7
Rockford	\$1,399	21,598	n.a.		\$ 102	\$ 157
Percentage Change from.... {Apr., 1950....	+19.2	0.0		+0.6	+4.0	-5.9
{May, 1949....	+200.2	+21.0		+6.0	+22.5	+9.2
CENTRAL ILLINOIS						
Bloomington	\$ 163	4,421	n.a.		\$ 42	\$ 96
Percentage Change from.... {Apr., 1950....	+41.7	+1.5		n.a.	+11.5	+17.5
{May, 1949....	+181.0	+17.9			+9.9	+20.0
Champaign-Urbana	\$ 454	6,693	\$6,440		\$ 45	\$ 85
Percentage Change from.... {Apr., 1950....	+35.5	-5.2	-1.1	n.a.	+15.6	+9.8
{May, 1949....	+66.3	+13.3	n.a.		+25.6	+8.2
Danville	\$ 258	6,632	n.a.		\$ 33	\$ 47
Percentage Change from.... {Apr., 1950....	+67.5	+1.1		+4.4	+2.1	-2.0
{May, 1949....	+138.9	+23.2		-1.4	+7.1	+10.8
Decatur	\$ 775	14,055	n.a.		\$ 69	\$ 84
Percentage Change from.... {Apr., 1950....	+23.8	+3.4		+1.2	+3.4	+1.1
{May, 1949....	+19.2	+20.6		+8.0	+17.0	+6.2
Galesburg	\$ 304	4,522	\$3,613		n.a.	\$ 26
Percentage Change from.... {Apr., 1950....	-30.4	+2.9	+6.0	n.a.		-1.7
{May, 1949....	+92.4	+8.9	n.a.			-1.1
Peoria	\$ 646	41,525 ^c	n.a.		\$ 181	\$ 175
Percentage Change from.... {Apr., 1950....	-29.6	+3.9		+4.6	+17.5	+5.4
{May, 1949....	+143.8	+14.3		+5.2	+9.1	+14.1
Quincy	\$ 264	5,764	\$4,461		\$ 30	\$ 66
Percentage Change from.... {Apr., 1950....	-14.0	-8.4	+3.2	-5.0	+10.2	+6.7
{May, 1949....	-24.1	+10.8	n.a.	-8.0	+8.8	+6.8
Springfield	\$ 679	18,548 ^c	n.a.		\$ 72	\$ 188
Percentage Change from.... {Apr., 1950....	+53.6	-3.9		+16.1	+5.1	+15.6
{May, 1949....	+36.9	+8.1		+10.1	+9.2	+5.3
SOUTHERN ILLINOIS						
East St. Louis	\$ 307	8,784	n.a.		\$ 112	\$ 44
Percentage Change from.... {Apr., 1950....	+100.7	+6.5		n.a.	+19.4	+10.1
{May, 1949....	+27.9	+10.3			+10.8	+12.1
Alton	\$ 69	10,024	n.a.		\$ 24	\$ 25
Percentage Change from.... {Apr., 1950....	-44.4	+6.6		n.a.	+6.7	+10.4
{May, 1949....	-63.3	+17.8			+15.0	+19.7
Belleville	\$ 318	4,010	n.a.		n.a.	\$ 29
Percentage Change from.... {Apr., 1950....	+109.2	+0.6		n.a.		+0.2
{May, 1949....	+306.9	+11.1				+5.5

Sources: ¹U. S. Bureau of Labor Statistics. Data include Federal construction projects. ²Local power companies. ³Illinois Department of Revenue. Data are for April, 1950, the most recent available. Comparisons relate to March, 1950. ⁴Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵Local post office reports.

^a Total for cities listed.

^b Moline only.

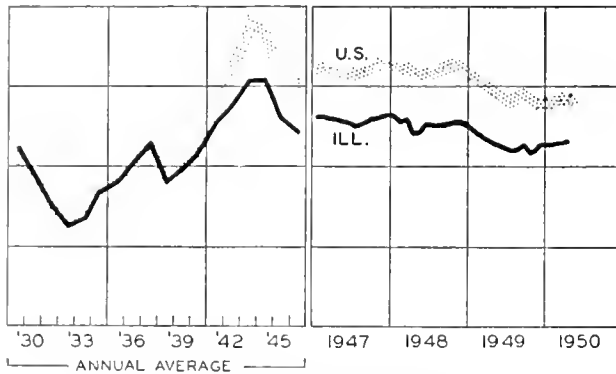
^c Includes immediately surrounding territory.

n.a. Not available.

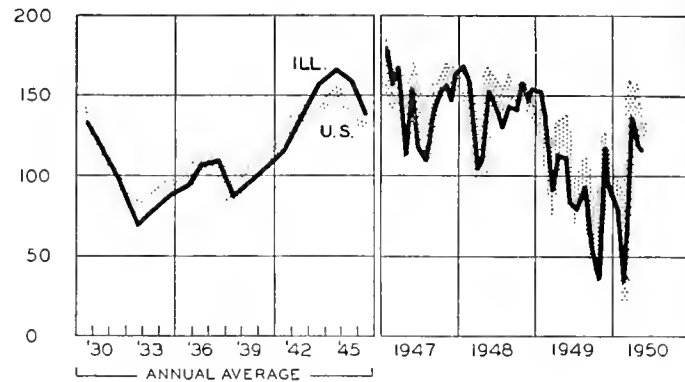
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

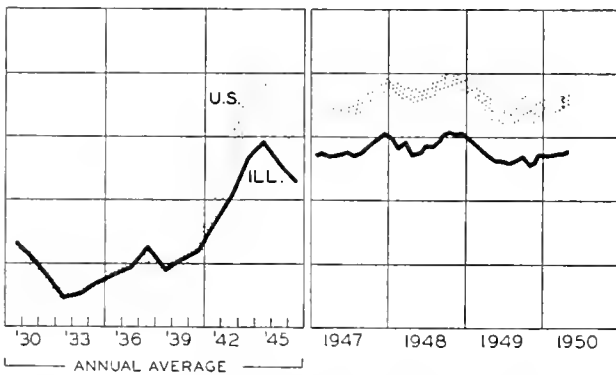
EMPLOYMENT - MANUFACTURING



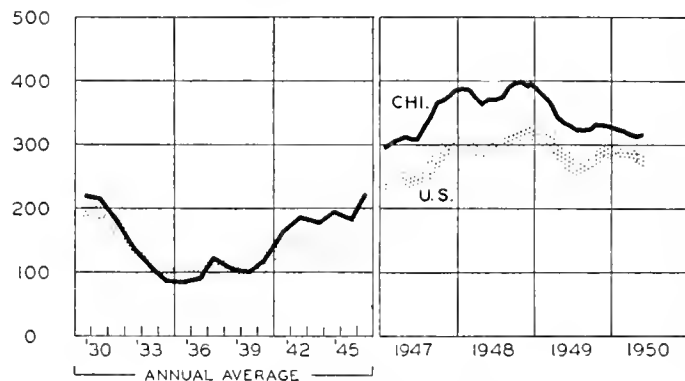
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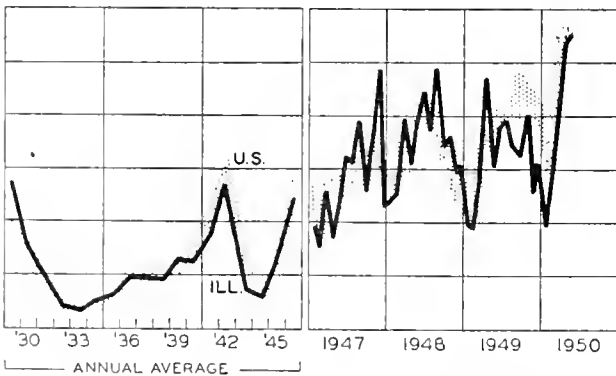
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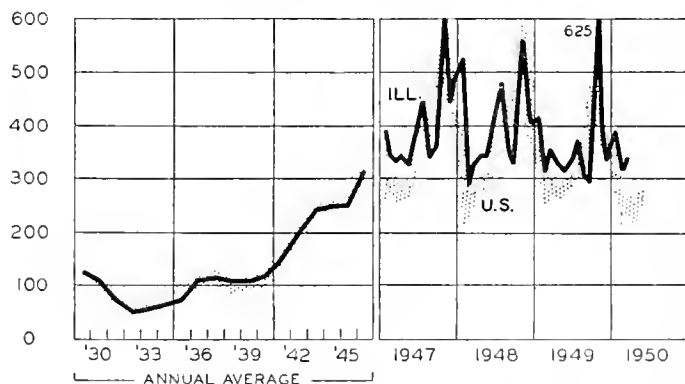
BUSINESS LOANS



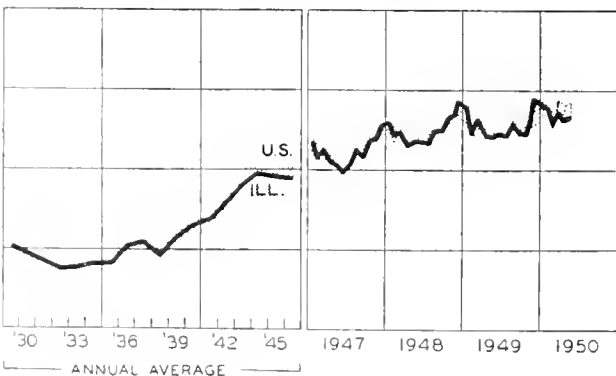
CONSTRUCTION CONTRACTS AWARDED



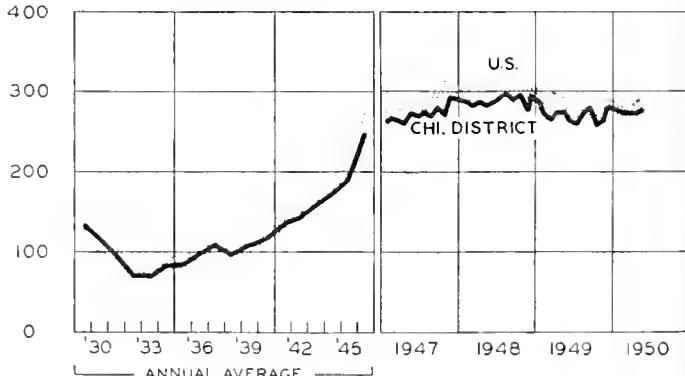
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



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ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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HIGHLIGHTS OF BUSINESS IN JULY

By July the American economy was well on the way toward one of the biggest booms in its history. The Federal Reserve index of industrial production for June, at 199, had already surpassed the previous peacetime high of 195 in October-November, 1948, though considerably below the wartime peak of 249 in the fall of 1943. With most industries attempting to increase output still further, industrial production is clearly headed for higher peaks. Limitations on capacity and inadequate supplies of raw materials loom as the main bottlenecks to further expansion. Automobile production has already been cut by steel shortages, and partly as a result of this fact July vehicle output is expected to drop 19 percent below June's record 860,000 units produced. Home building, which set an all-time record in June with 142,000 housing starts, will also probably be cut back as materials are diverted to other uses and as mortgage terms are tightened.

Prices Rise

Prices were moving up all along the line during July. With only moderate inventories on hand at the start of the Korean conflict, wholesalers and manufacturers have greatly stepped up orders, partly to meet increased demand for their own products, and partly as a precautionary measure. As a result, the price index of 28 sensitive commodities has jumped upward by 11 percent within the space of a single month. Lead, lard, rubber, and shellac rose as much as 10 percent in some weeks. It is therefore not surprising that the month witnessed new postwar highs in a number of commodities, such as coffee, tin, hides, hogs, cotton, print cloth, sugar, cocoa, and rubber.

Reflecting the upward pressures on prices, the Bureau of Labor Statistics wholesale price index had risen 3.7 percent during the first month of the Korean War to 162.9 percent of the 1926 average; that is more than the index had risen during the entire preceding year from the recession lows of 1949, though it is still below the postwar high of 169.5 in August, 1948. The main increase over the past month has been in meat prices, which jumped nearly 12 percent. The wholesale price of foods in general has risen 7.3 per-

cent, while prices of farm products rose 5.5 percent. In industrial materials, the main price increases occurred in chemicals, up 3.3 percent, and in textiles, up 2.7 percent.

Retail Sales at Peak

The picture at the retail level is much the same as at the manufacturers' level. At \$11.6 billion after seasonal adjustment, retail sales in June were at an all-time high, 2.9 percent above the preceding month. Almost all of the increase took place in the sales of durable goods stores, which rose 7.3 percent. As expected, the main increase occurred in automotive sales, up 10 percent.

A new high in seasonally adjusted retail sales is very likely for July. The month has seen a flood of new orders for all types of durable goods, and many automobile dealers already have more orders than they can fill for the next three months. There is also considerable evidence of hoarding, judging by the sellouts in many stores of such commodities as sugar and tires. Indicative of the continued high spending is the rise of department store sales in the last week of July, 57 percent above the corresponding week of 1949, the largest such increase ever recorded.

Stock Prices Mixed

One area where recent events have, if anything, had an adverse influence on prices is the stock market. The Dow-Jones average of 30 industrial stocks, after reaching a high of 228 on June 12, broke sharply with the Korean invasion and declined to a low of 197 on July 13. About one-third of the loss was later regained. Fear of shortages, controls, and increased taxes was a major cause.

Utility stocks dropped 15 percent. Since utility rates are pegged, the increased costs that generally result during war act to squeeze profit margins in the industry. Railroad stocks, on the other hand, surged upward, the Dow-Jones average of 20 rail stocks rising 19 percent in a little over a month. Capacity traffic resulting from remobilization is almost bound to lead to high railroad earnings, and because of their heavy invested capital railroads occupy an advantageous position in case of an excess profits tax.

Because of the annual vacation of the University Print Shop this issue of the *Review* is reduced in size. It omits the usual statistical data, which are generally not yet available. We shall be glad to send copies of the missing tables to anyone requesting them. The next issue will contain the usual 12 pages.

ILLINOIS BUSINESS REVIEW

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Economic Effects of the War

Part of the confusion growing out of the Korean War arises from the fact that our thinking had never been adjusted to the possibility of outbreaks of this kind. Washington planning had been at the extremes of full mobilization, on the one hand, and full employment policy without regard to military affairs, on the other. Nowhere was there a blueprint of what would be wanted or needed in the first year of forced mobilization in the absence of an all-out war.

Appearance of the Prewar Economy

The essence of the business outlook is that we are moving into a prewar type of economy likely to persist for some time. Anything can happen, of course, but our guess is that World War III will not come in the near future. There may be other local outbreaks—in such sensitive spots as Yugoslavia, Iran, and Southern Asia, especially Indo-China—but none of these seems likely to provide sufficient reason to bring in the Russians themselves. The prospects, therefore, favor a period of several years of rearmament, with prosperity and high employment, but no all-out war effort.

Whatever the actual war situation, military expenditures will be increased sharply. President Truman has already requested an additional \$10 billion expansion of the military program. Actual military expenditures will not increase by anything like this full \$10 billion in the first year because of the time required to get production under way. What is spent depends on how much can be done, not on how much money is made available for doing it. The best estimates now available indicate an increase in the annual rate of expenditures of only about \$5 billion in the course of the next year, a volume that could easily be turned out without strain.

More important from an economic point of view was the sharp expansion of civilian demand over existing boom levels, as the Korean situation brought back the reactions of wartime. Both consumers and business joined in a concerted rush for goods—to protect themselves against shortages and price increases. There were also concerted efforts to speed up construction projects of all kinds. The inflationary pressure created has been evident in the acceleration and spreading of price advances.

The immediate spurt may be regarded as a temporary phase, one that will burn itself out with the passing of

fear. As inventories accumulate, pressure will be relieved. Yet, so many factors are now combined to support the upward movement that it is clearly an affair of more than just a few months. With business in so liquid a condition, and consumers holding so large a volume of liquid savings, spending is practically unlimited and will almost certainly be more than the economy can produce, particularly in the durable-goods industries. Adjustment to the new situation may be delayed until priorities or other controls take effect; and the first steps to establish such controls are already being taken.

The Outlook for Controls

The real pinch will come in key industries like steel, which were already operating at capacity. Additional piling up of orders on the books can now only result in restriction of acceptances. Some military programs have already been slowed by lagging deliveries, and the recent concentration of civilian demands will tend still further to aggravate the accumulation of unfilled military contracts. Difficulty may be encountered in placing new contracts for metal products, as it was in the early part of 1941. In such circumstances, the use of priorities will be unavoidable.

As soon as priorities are given to military products, there will inevitably be demands for assistance to other essential activities, such as transportation and utilities. Hence, while direct military demands for steel may remain relatively limited, the total volume directed into essential activities will be considerably larger. Even allowing for this, the total volume of steel moving under priority orders seems unlikely to exceed a fraction of the total supply.

During the period of partial mobilization, while this continues true, the controls used are likely to be moderate in character and confined to a few critical materials. All-out allocations and price controls are hardly possible in this country without all-out mobilization; resistance to such controls can be overcome only by a real emergency need for them. Consequently, controls may take the form of voluntary agreements, similar to those which were used by the steel industry in the early postwar years. In some cases, such arrangements may be supplemented by a monopoly of foreign buying, like that recently used for rubber.

Use of controls will, of course, divert materials away from less essential uses; and steel seems likely to be the most critical controlled material from the standpoint of curtailing civilian production. Even with the steel industry free to "allocate" the bulk of the supply among its customers, cutbacks in production of many steel-consuming products like autos and houses will be inevitable. How large the cutbacks will be depends partly on how effectively the distribution of critical materials can be organized. Moderating the scramble that aggravates imbalances is precisely the intent of credit and other controls on consumer buying.

Margins for Expansion

To place all emphasis on inflation and shortages, however, is to overlook the margins for expansion that exist in our economy. A common view of the Korean situation is that the Russians brought it on with a view to weakening us by draining and dispersing our resources. The error of this concept lies in the fact that we gain strength by producing. We have the resources to create and maintain a large military machine without any real

(Continued on page 7)

DRUGS AND PHARMACEUTICALS

The production of drugs and pharmaceuticals has been expanding rapidly since the start of World War II, stimulated by the large wartime military needs, rising consumer incomes, and the outstanding recent progress of pharmaceutical research. There are few industries that change and improve their products so frequently.

During 1949, production of sulfa drugs almost doubled, and penicillin sales were higher than ever before. Production of synthetic vitamins, another of the drug industry's biggest postwar sellers, was up 12 percent from 1948.

A Diversified Industry

There is an almost infinite variety of drugs and pharmaceuticals. A 1947 Federal Trade Commission report revealed that the drug industry, which had 1,350 firms, was the least concentrated of the 26 leading industries studied, with less than 25 percent of its total assets held by its three largest companies.

The products of the drug industry are divided into four classifications: medicinal chemicals such as vitamins; biological preparations such as serums; botanical drugs and herbs; and pharmaceuticals. The production of pharmaceuticals, primarily the fabrication of drugs and medicines in the form of ampules, tablets, capsules, ointments, and solutions, took the lion's share of the \$1.2 billion value of drugs produced in 1947 and amounted to almost four times the combined total of the other classes.

Only about half of the annual output of pharmaceuticals is specially packaged and offered for sale to the general public. These drugs that are retailed under brand names are referred to as proprietary pharmaceuticals and include such products as milk of magnesia, aspirin, cough and cold products, and vitamins. The other half, the so-called "ethical" drugs, are sold to or prescribed by physicians. The continual development of new products through research is most typical of the ethical drug houses.

Illinois a Leading Drug Producer

In 1947 Illinois was listed as the fourth ranking state in the nation in product value of pharmaceutical preparations. The 100 Illinois firms in the industry employed 7,000 workers and contributed \$99 million to the total \$941 million national value of product. In addition to producers of pharmaceuticals, the State had 1 plant preparing botanical drugs, 9 manufacturers of biological preparations, and 6 producers of medicinal chemicals.

One of the largest manufacturers of drugs and medicines in Illinois is the Abbott Laboratories in North Chicago which manufactures more than 1,200 pharmaceuticals and is rated the third largest seller of ethical drugs in the nation. Another large Illinois drug manufacturer is the G. D. Searle Laboratories in Chicago, producers of the Dramamine seasickness drug.

By-products of the meat-packing industry provide over a hundred medical preparations, most of them extracts from animal glands. The pharmaceutical laboratories of

Armour and Wilson in Chicago manufacture such products as thyroid, liver, and pituitary extracts, and are doing outstanding work in the field of hormone research.

A number of the animal hormones, including insulin, epinephrin, and thyroxine have been used medically for years. Recent emphasis, however, has been on the adrenal secretion called cortisone, and ACTH, the pituitary hormone which stimulates the production of cortisone. Although cortisone has been a remarkably effective treatment for arthritis and shows promise of checking other diseases, present production has been sufficient for research purposes only. More actual clinical work has been done with ACTH, which is manufactured by both Armour and Wilson and has been effective in the treatment of gout, rheumatic fever, and allergies.

The "Wonder Drugs"

Up to 1945 the sales of the ethical drug industry roughly paralleled the ups and downs of disposable income. After World War II, however, the industry began an unprecedented expansion which boosted ethical drug sales 71 percent to \$714 million between 1945 and 1949, while disposable income rose only 27 percent. The sulfas, vitamins, and antibiotics were largely responsible for this development, together with continuing high demand for the many symptom- and pain-relieving compounds that have been the foundation of the drug industry.

The first compounds labeled "wonder drugs" were the sulfanomides, a German discovery that came on the market in the middle 1930's. Man-made products of the chemical laboratory, they proved to be especially effective against streptococci, meningitis, and gonorrhea.

Just before the war, scientists began the intensive study of antibiotics, the natural chemical substances manufactured by bacterial molds in a sort of chemical warfare against other types of bacteria. Penicillin, released commercially about 1940, was the first one found to be effective against disease and yet comparatively harmless to human tissue. Although it made bacterial pneumonia easier to cure than the common cold, penicillin is relatively ineffective against virus pneumonia and many other types of germs. Streptomycin, discovered in 1943, and the recently discovered antibiotics, aurcomycin, chloromycetin, and terramycin, have effectively widened the range of pharmaceutical defense against disease.

The production of antibiotics, already almost 25 percent of ethical drug sales, is just beginning, and it is expected that in the future the industry will develop checks for such deadly killers as cancer, polio, and tuberculosis, as well as the three top infectious diseases, measles, chickenpox, and mumps. Although the rapid changes in pharmaceutical production may affect different companies in different ways, because of extensive programs of research the long-term outlook for the drug industry as a whole is brighter today than at any other time in its history.

KNOW YOUR STATE

RECENT ECONOMIC CHANGES

Production Slacks Off

Following June's peacetime high in industrial activity which carried the FRB index to 199 (1935-39 = 100), production was generally off a little in July because of Independence Day and summer vacations. Automotive output was down in the holiday week to a total of 117,000 vehicles, but rebounded to 185,000 weekly in the next two weeks. The industry reports that some steel shortages are being felt, and total July production is estimated at 700,000 cars and trucks. Steel output averaged nearly 97 percent of capacity for the month, with total production at about 7.5 million net tons of ingots and castings.

The persistent high demand for steel, which even capacity production failed to meet, was aggravated by the outbreak of war in Korea to such an extent that several industry leaders were asking for a scheme of voluntary allocations. In an effort to satisfy increasing demand, steel companies are planning sizable additions to their capacity. Thirteen big steel companies expect to make additions totaling 6,363,000 tons to their capacities by the end of 1952. Increases of 1,170,700 tons in the first half of this year brought total potential output for the industry to 100,563,500 tons.

Inventories Up Slightly

Business inventories, seasonally adjusted, again rose slightly during May to the highest point since last July. Manufacturers' stocks showed a \$300 million increase, and wholesale and retail stocks rose about \$100 million each. Total business sales were up \$2.8 billion. Nearly 70 percent of the gain occurred in manufacturing sales. May sales and stocks, in billions of dollars, are as follows:

	<i>Stocks</i>	<i>Sales</i>
Manufacturing.....	31.5	20.4
Wholesale.....	9.5	7.9
Retail.....	14.3	11.3
Total.....	55.2	39.6

At their postwar peak in December, 1948, and January, 1949, business inventories totaled \$58.6 billion, seasonally adjusted, whereas sales amounted to \$38.3 billion and \$36.2 billion, respectively, in those months. Thus it may be seen that larger business sales are now being supported by smaller stocks of goods, a fact which holds true at all levels—manufacturing, wholesale, and retail. A year-to-year comparison, from May, 1949, to May, 1950, shows similar changes in the sales-stock ratios.

At least some of the inflationary pressure now being exerted on prices reflects additions to inventories, as retail firms especially build up stocks in preparation for the fall season. It is also reported that firms which have been running on short inventories in anticipation of price declines have gone into the market for added supplies to raise stocks to about a 90-day level.

Housing Still Booming in June

Still another new record was set in June with 142,000 new nonfarm housing units started during the month, nearly 50 percent above the June, 1949, level. June starts brought the total for 1950 to 687,000 units, more than half again as many dwellings started as in the first six months of 1949.

By mid-July, however, the housing picture was a little less rosy. In the partial mobilization of the nation's resources for the uncertain period ahead, the President placed further restrictions on public housing projects and

on credit for house purchases. Conservation of materials for defense construction was the chief aim of the restrictions. It is generally believed, however, that effects of the added requirements will not be felt for a few months.

Personal Income Holds

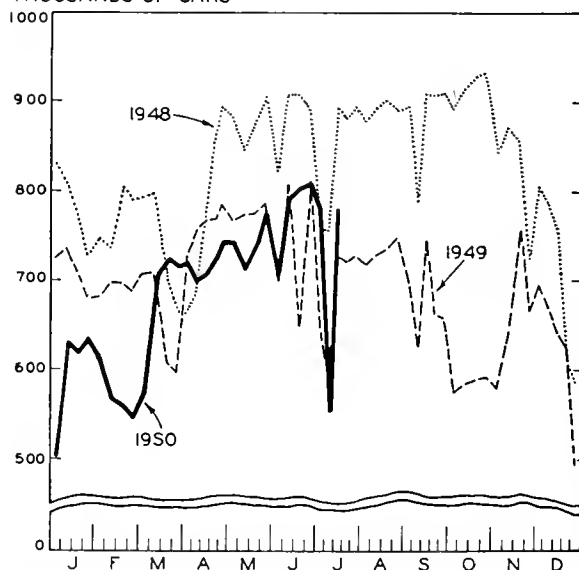
Although the nonrecurring payment of dividends on National Service Life Insurance fell off sharply, personal income declined only \$500 million from April to May to a total of \$213.3 billion at an annual rate. Excluding the dividend payments, income rose from \$209.7 billion during April to \$212.2 billion during May. Increases in payrolls and proprietors' income were chiefly responsible for the gain. Wage and salary payments in May this year were at a near-record \$136.4 billion as compared with \$132.7 billion a year before. Proprietors' and rental income was down in the year, however, from \$42.6 billion to \$41.5 billion.

Carloadings Recover

The rebound in business activity has reversed the downward movement in freight carloadings that prevailed through 1949. As shown in the accompanying chart, carloadings have risen considerably since the beginning of the year and now generally exceed the level of 1949. With industrial production maintained at a high level, it is probable that carloadings will continue to move up. Already some shippers are entertaining the view that the fall pickup will increase the present freight car pinch, which ran to a net daily average shortage of about 5,000 cars during June. The outlook is still further darkened by the fact that so many of the cars now in use are overage. Government transportation authorities and railroad leaders, however, feel that heavier loading and shorter loading and unloading time will help meet any increase in demand. Recently, also, two large insurance companies, Equitable Life and Prudential, have announced plans to help a number of railroads finance the addition of new cars.

FREIGHT CARLOADINGS IN THE U. S.

THOUSANDS OF CARS



Source: Association of American Railroads.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Magnetic Detecting Device

A low-cost magnetic detecting device for locating faults in metal parts is being distributed by the Magnaflux Corporation. Based on equipment formerly available only at high cost and used largely in mass-production plants, the new device will allow small and medium-sized plants to use magnetic inspection on parts up to 54 inches long and 12 inches in diameter. A magnetic field is induced in the material to be tested, and wherever cracks occur powdered iron filings gather and reflect a line of weakness under violet ray lights. Detection of cracks or fissures even as small as one ten-thousandth of an inch is practical.

"Mechanical Brains"

The story of "mechanical brains," how they think, what they do, and what they may mean in the future, is told by Edmund C. Berkeley in a book entitled *Giant Brains* (New York: John Wiley and Sons, Inc., \$4.00). Berkeley believes that these machines, built only since 1940, have future possibilities so vast that a second industrial revolution may be beginning. Although it describes several of the existing large-scale computers, including ENIAC and Harvard's IBM sequence-controlled calculator, the book is not purely descriptive but evaluates future possibilities and problems of control. Intended for everyone, it is written in an informal style, and technical explanations are reserved for the generous supplements.

An electronic "brain" system has been installed in the Pennsylvania station in New York City and is expected to be in use throughout the Pennsylvania system by the end of next year. A semi-automatic device makes it possible for a customer at a ticket window to learn in less than 60 seconds what space is available on a train for any date and pick up the ticket immediately.

Claude Neon, Incorporated, has developed an electronic computer that can be used to speed equipment tests and is finding increasing application in the automotive and aviation industries for testing airplanes, automotive crankshafts, and guided missiles before they have gone on the engineering draft table. Mathematical problems previously requiring months can be solved in several days, and quick evaluation of a proposed design may eliminate the need of expensive pre-production models that would have proved unsatisfactory.

An electronic "brain" system recently installed in the Flint, Michigan, Buick plant of the General Motors Corporation automatically provides for 14,000 variations in design, style, or color, solving the problem of scheduling mass production with variety despite standardization. Buick assembly lines can now mechanically meet any combination of customer specifications through the use of teletype and perforated tape communications, punched order cards, and machines which "read" specifications electronically from pencil marks. Since cost records and shipping notices are electronically tied in, there is almost complete mechanization of office routine.

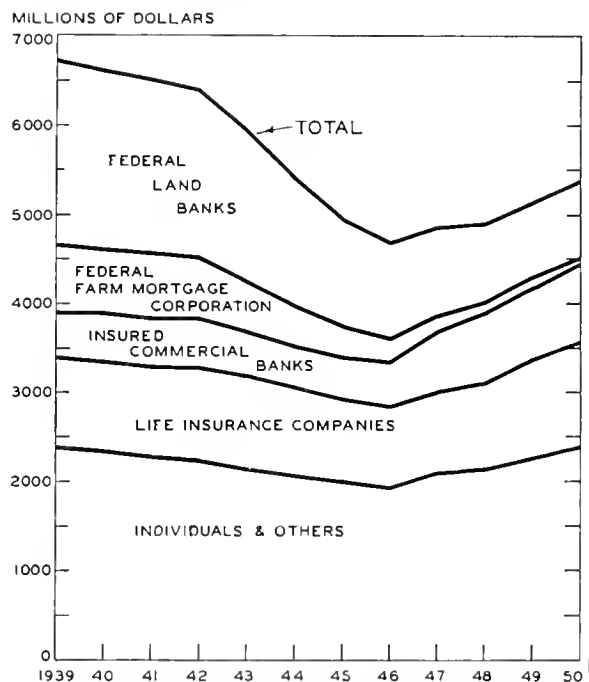
Automatic Parts Production

A completely new method of mass production in metal-working industries has been introduced by the Arma Corporation, a subsidiary of the American Bosc Corporation. An electronic attachment using a "piano roll" device with blueprint data punched in rows of dots on paper rolls provides precision production control on the standard lathe without human aid, except for loading and unloading the machine. Models costing about \$1,500 can control repetitive output electronically, saving as much as 75 percent of the time normally required to make a standard machine part to tolerances as fine as plus or minus a fraction of one-thousandth of an inch. They can be applied to almost any machine tool.

Farm Mortgage Debt

In 1949, for the fourth consecutive year since the 34-year low on January 1, 1946, farm mortgage debt was higher at the end of the year than at the beginning. The rate of advance in 1949 was three times greater than in 1946 or 1947 and one-third higher than it had been in 1948. As shown by the chart, the only reduction in 1949 was recorded by the Federal Farm Mortgage Corporation, which had no authority to make new loans. Loans held by life insurance companies have been expanding since 1946, loans by commercial banks started rising in 1944, and individual and other loans have gone up since 1946. The outstanding loans of the Federal Land Banks, however, rose last year for the first time since 1936. As in 1948, loans by life insurance companies showed the largest percentage gain, rising 13 percent to \$1,172 million.

FARM MORTGAGE DEBT: BY PRINCIPAL LENDER GROUPS



Source: *Agr. Finance Review*, U. S. Dept. of Agr.

THE RAIL CARLOAD FREIGHT TRAFFIC PATTERN OF ILLINOIS

ROBERT W. HARBESON, Associate Professor of Economics

The outstanding feature of the rail carload freight traffic pattern of Illinois, when viewed in terms of broad commodity groupings, is the heavy preponderance of traffic confined to Illinois and the five surrounding states. The accompanying table shows that more than 50 percent of the rail carload freight traffic originating in Illinois in 1948 terminated in Illinois, and that about 75 percent terminated in Illinois and the five surrounding states. Similarly, over 44 percent of the rail carload traffic terminating in Illinois also originated in Illinois and the five surrounding states.

These facts are brought out by new statistical data made available as a result of an order of the Interstate Commerce Commission requiring all Class I railroads (\$1 million gross operating revenue or more) to file with the Commission a copy of every hundredth waybill representing the termination of carload freight. The carriers were also required to furnish information not obtainable from the waybills, particularly the kind of rate on which the shipment moved, whether class, exception, or commodity. The ICC's Bureau of Traffic inserted on the waybills the shortest rail-line distance and the applicable first class rate. The waybill data, with this additional information, were then processed and tabulated by the Commission's Bureau of Transport Economics and Statistics.

The primary objectives of this work, as stated by the ICC, were "to portray the traffic pattern and rate structures of the United States in terms of (1) groups and classes of commodities, (2) intraterritorial and interterritorial movements, (3) short-line distances, (4) type of rate, (5) rates charged, and (6) relation of the rates charged to the first class rate." (*61st Annual Report, 1947*, p. 142). Other objectives were to furnish information

which would permit the development of an index of freight rates for particular commodities and for all commodities combined, and to obtain information as to the extent of circuitous routing.

Since 1940 the Commission has published statistics showing originated and terminated traffic by states, but not state-to-state movements. In other words, prior to the waybill studies it was impossible to determine where the freight which originated in any particular state terminated or where the freight which terminated in any particular state had originated. The waybill studies have made such data available on a quarterly basis for 1947 and 1948, but unfortunately their publication for later periods has been discontinued for budgetary reasons.

The one percent sample of waybills if expanded to one hundred percent will not agree with the actual figures for terminated tonnage shown in the ICC's publication *Freight Commodity Statistics*, for two reasons. First, there is a sampling error, which varies from less than one percent for movements of 10,000 carloads or more, to 3 percent for movements of 1,000 to 10,000 carloads, and to 10 percent or more for movements of 100 carloads or less. Second, there are differences in the reporting practices employed for the waybill studies and the *Freight Commodity Statistics*, as, for example, on rail-water-rail hauls where separate waybills are issued for each rail haul, whereas for purposes of the freight commodity statistics only one origination and one termination are reported.

Commodity Differences

The degree to which the traffic originating or terminating in Illinois was confined to Illinois and the five surrounding states varied considerably among the commodity groups. For Animals and Products, only 15 percent of the carload tonnage originating in Illinois terminated in Illinois and the five surrounding states, whereas the corresponding figure for Products of Mines was about 92 percent. Conversely, about 21 percent of the tonnage of Products of Forests terminating in Illinois originated in Illinois and the five surrounding states, but the corresponding figure for Products of Mines was more than 81 percent.

Additional information of interest is supplied by the available waybill studies of individual commodity classes. One of these, based on 1947 data, relates to one of Illinois' most important products, bituminous coal. This study shows that of the carload bituminous coal tonnage originating in Illinois about 69 percent also terminated in

PERCENTAGE DISTRIBUTION OF RAIL CARLOAD TONNAGE MOVING
BETWEEN ILLINOIS AND SURROUNDING STATES, BY
COMMODITY GROUPS
(Based on ICC 1% waybill sample for 1948)

Movement	Products of Agriculture	Animals and Products	Products of Forests	Products of Mines	Manufactures and Miscellaneous	Total
From Illinois to:						
Illinois.....	41.84	9.65	41.48	70.56	26.48	50.62
Indiana.....	7.42	2.12	13.13	5.37	14.99	8.81
Iowa.....	1.76	.25	5.63	6.21	3.29	4.50
Kentucky.....	2.65	.69	3.45	.17	1.15	.87
Missouri.....	3.31	.83	1.68	5.76	3.66	4.60
Wisconsin.....	1.34	1.83	5.65	3.69	9.02	5.10
Total, six states.....	58.32	15.37	71.02	91.76	58.59	74.50
All other states.....	41.68	84.63	28.98	8.24	41.41	25.50
To Illinois from:						
Illinois.....	46.53	12.01	7.50	53.00	29.77	44.39
Indiana.....	3.69	2.28	.79	11.81	9.09	9.76
Iowa.....	9.41	21.93	.17	.12	3.03	2.20
Kentucky.....	.34	.80	1.55	11.69	.63	7.15
Missouri.....	4.32	5.66	6.06	1.64	4.97	2.98
Wisconsin.....	2.67	6.35	4.73	3.04	3.95	3.33
Total, six states.....	66.96	49.03	20.80	81.30	51.44	69.81
All other states.....	33.04	50.97	79.20	18.70	48.56	30.19

Source: ICC, Carload Waybill Analyses, 1948. Statements Nos. 4838, 492, 498, 4920.

Illinois and more than 94 percent in Illinois and the five surrounding states. Of the tonnage of this commodity terminating in Illinois about 59 percent also originated in Illinois, about 86 percent in Illinois and the five surrounding states, and almost 98 percent in these states plus West Virginia. There was some reciprocal movement of coal between Illinois and Indiana. This movement may be explained by differences in the grade and quality of coal, variations in availability of supplies at particular times, and possibly by rate-structure considerations. The railways originated 46,890,000 tons and terminated 40,469,000 tons of bituminous coal in Illinois during 1947. This represented about 41 percent of the total railway carload tonnage originated, and 37 percent of the tonnage terminated, in the State in that year.

Traffic in petroleum and petroleum products, as might be expected, is much less confined to Illinois and the five surrounding states than is the traffic in bituminous coal. Nevertheless the traffic in these products, both as a group and individually, is confined to relatively few states. Thus, of the total carload traffic in petroleum and petroleum products originating in Illinois in 1948 about 31 percent also terminated in Illinois and about 95 percent in Illinois and twelve other states. The most important of the latter, in order, were Ohio, Wisconsin, Michigan, Indiana, and Missouri. Of the total carload traffic in these products terminating in Illinois about 33 percent originated in Illinois and about 96 percent in Illinois and eight other states. Of the other states, Texas was overwhelmingly the most important, contributing over 34 percent of the tonnage of petroleum and petroleum products terminating in Illinois.

An interesting fact is that over 87 percent of the tonnage of crude petroleum terminated by rail in Illinois in 1948 came from Texas and Wyoming, despite important sources of supply closer at hand in Illinois, Kansas, and Oklahoma. Apparently, the presence or absence of pipeline competition does not explain this circumstance to any important extent, since Illinois has direct or indirect pipeline connections with all the producing areas mentioned. Among the possible explanations may be mentioned rate-structure considerations, the necessity of securing

adequate supplies of the grades and kinds of crude petroleum desired, and the fact that those companies refining or distributing petroleum products in Illinois which import crude petroleum by rail may own or control their principal producing properties in Texas and Wyoming.

Moreover, although almost all the crude petroleum terminated by rail in Illinois came from outside the State, over 88 percent of the crude petroleum originated by rail in Illinois moved to other states. It should be noted, however, that only 144,000 tons of crude petroleum were originated by rail in Illinois as compared with 1,264,000 tons terminated, and that most of the Illinois crude moved to states farther away than Illinois from the largest sources of production.

Finally, there was some reciprocal movement of refined petroleum products between Illinois and other states, notably Indiana. While availability of supplies, differences in grades of products, and rate-structure considerations explain this circumstance in some measure, it is probable that an important part of the explanation is to be found in the market structure of the petroleum industry. The features of the latter which are important in this connection are: (1) the sale of most refined petroleum products at retail under brands and trade marks to which more or less consumer preference is attached; (2) a certain degree of price leadership by the large oil companies; and (3) in some instances, a policy of maintaining either uniform retail and/or dealer prices for refined products over considerable areas, or price differentials unrelated to transportation costs. Under these circumstances it is possible for a given firm to penetrate market areas which would normally be tributary to other sellers by reason of lower transportation costs, and to the extent that this is the case unnecessary transportation is involved.

NOTE: Tables showing the movements between Illinois and all other states for the commodity groups and individual commodity classes here considered may be obtained upon application to the Bureau of Economic and Business Research, University of Illinois, Urbana, Illinois.

Economic Effects of the War

(Continued from page 2)

reduction in living standards; and any temporary lag in our military programs will be overcome as soon as we place our productive machine under the controls needed to make rearmament effective.

With the exception of a few key industries, our industrial capacity was far from fully utilized at the time of the outbreak in Korea. Few industries had been operating even a 6-day week. Almost insignificant was the number that were operating more than one shift. Output of most kinds of goods can be expanded without any need for new facilities. And key industries like the steel industry will be constantly expanding, so that continual increases in output will moderate the restrictions on steel-consuming industries.

The labor supply is also ample for a large expansion of production. The president's proposed increase of 600,000 in the armed forces would not reduce current unemployment of 3 million below a normal full employment level; and as the emergency progresses, millions of additional workers can be obtained by further reducing unemployment and by drawing in nonworkers like housewives

and students. Still others can be shifted from nonessential occupations to necessary industrial jobs. Working hours can be increased all along the line. And rising productivity will step up output even more rapidly.

The expansion of output should in many industries help to restrain price advances. This is particularly true in some of the semidurable lines, where margins of unused capacity have been substantial in recent months. Surpluses of agricultural commodities will also restrain advances in prices of major crops; and although there could be further rapid advances in meat prices if consumer buying shifted in that direction, consumers are initially more likely to concentrate their purchases on durables and semidurables. These restraints on prices will tend to hold down the cost of living and to moderate demands for higher wage rates. Thus, while prices seem likely to keep moving up during the months ahead, the upward movement seems likely to be slower than the initial upsurge would suggest.

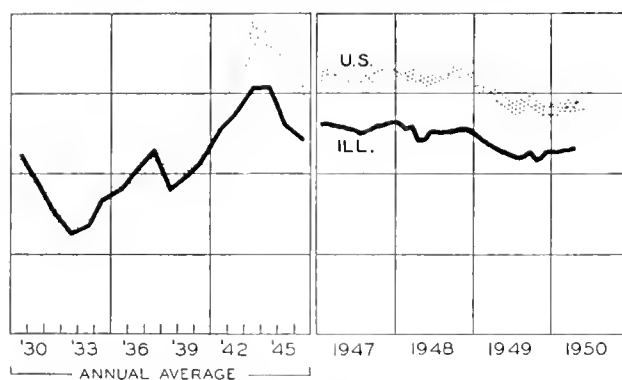
In short, pleas for moderation have a reasonable economic foundation as well as an element of whistling in the dark. Disregarding them can only push the boom to a point where another temporary letdown becomes inevitable.

VLB

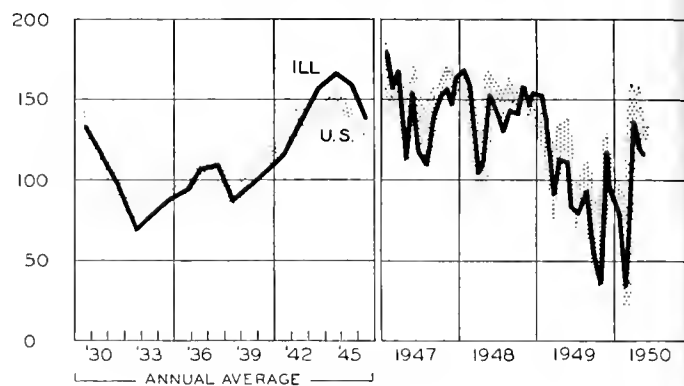
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

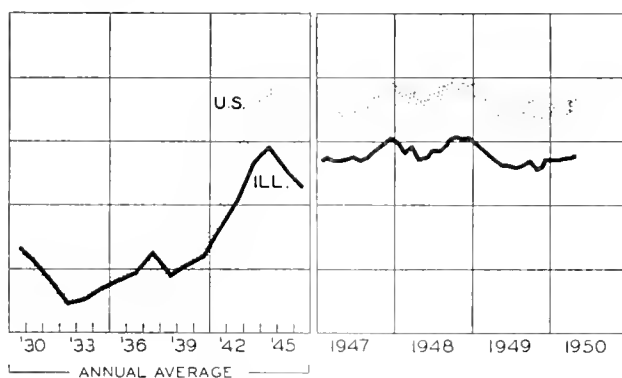
EMPLOYMENT-MANUFACTURING



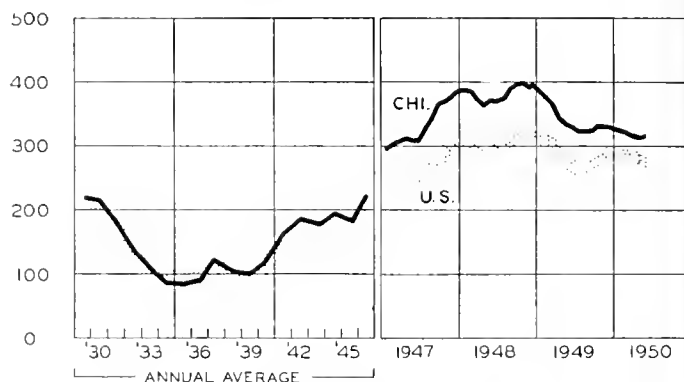
COAL PRODUCTION



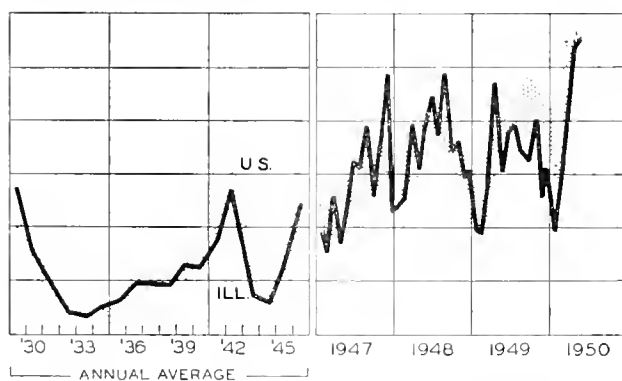
PAYROLLS-MANUFACTURING



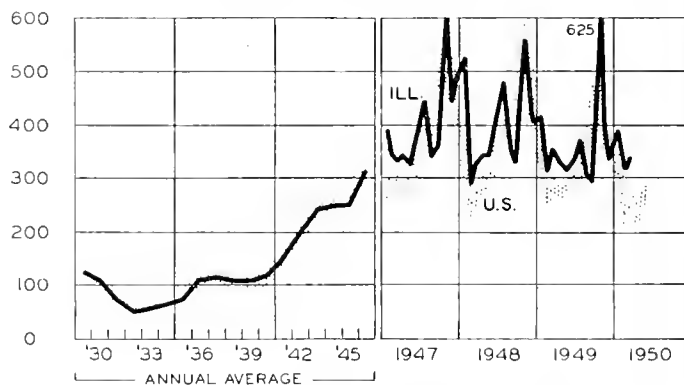
BUSINESS LOANS



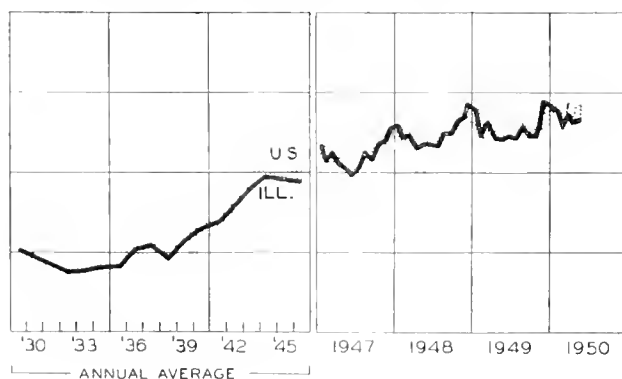
CONSTRUCTION CONTRACTS AWARDED



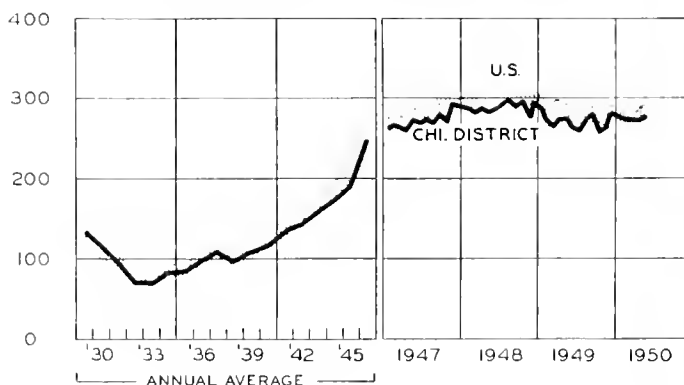
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



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ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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SEPTEMBER, 1950

NUMBER 9

HIGHLIGHTS OF BUSINESS IN AUGUST

One record after another was broken in August as the business boom attained new heights. Such key indicators as employment, construction, consumer credit, and electric power output were at all-time highs. The Federal Reserve Board estimates that its index of industrial production rose 3.5 percent from July to 204 on a seasonally-adjusted basis, the highest peacetime level in history. The month also witnessed the production of the 5,000,000th motor vehicle for 1950, and there is little doubt that the 1949 production record of 6.2 million vehicles will be surpassed this year. Reflecting the upsurge in industrial activity is the continued increase in electric power output. In the last part of the month, utilities were producing a record of nearly 6.4 billion kilowatt-hours weekly, 15 percent above the corresponding period of 1949.

Judging by the sharp rise in new orders, manufacturers will have plenty of business in the months ahead. The new orders of durable goods manufacturers in July exceeded sales by \$2.2 billion, excluding orders placed with major aircraft producers, while new orders of non-durables exceeded sales by \$800 million. As a result, the backlog of manufacturers' unfilled orders rose to about \$4.5 billion, a very comfortable working margin.

Employment at Peak

More people were at work in August than ever before in American history. Total employment reached 62.4 million, 1.2 million above the July level. Mainly responsible for the increase were the entry of 440,000 additional workers into the labor force and a decline of 710,000 in unemployment. At 2.5 million, unemployment is at the lowest level since December, 1948.

A 1.6 million rise in the number of nonfarm jobs accounted for all of the gain in employment. The increase was more than seasonal and brought nonfarm employment up to 54.2 million. Farm employment is reported to have dropped slightly to 8.2 million.

Prices Rise

Prices continued to rise during August. At the end of the month the Bureau of Labor Statistics wholesale

price index stood at 167.5, or 1.3 percent above the last week of July. Every major commodity group shared in the rise, with the sharpest gains recorded in textiles, building materials, and chemicals. The index of 28 basic commodity prices also advanced and ended the month 5 percent above the end of July. A number of commodities reached new highs for the year, among them coffee, cottonseed oils, steel scrap, lead scrap, and cocoa.

Construction at Record High

An all-time peak of \$2.7 billion of new construction was put in place during August. This exceeded the previous month's high by 3 percent and was 24 percent above the level of August, 1949. Moderate increases were recorded for all major categories of construction. Private residential building, valued at \$1.2 billion, accounted for more than three-fifths of total private outlays in the month. Housing starts in August may have even exceeded the record 144,000 units started in July.

New construction outlays in the first eight months of this year were 20 percent above those in the corresponding period of 1949. Home building is the prime factor in this boom, with private residential construction up by 54 percent over the same period. Private nonresidential building is running 22 percent over last year and public construction is up 5 percent.

Consumer Credit Up

Consumers owed more money at the end of August than ever before. The rush to purchase goods during July caused consumer credit to jump by \$660 million, the biggest monthly increase ever recorded. As a result, total consumer credit at the end of the month reached an all-time peak of \$20.3 billion. Most of the rise, \$500 million, was in installment credit, as the buying rush concentrated on heavy durables such as autos, refrigerators, and washing machines.

In the last year, consumer credit has increased by \$4.2 billion, or over 25 percent. The main increase has been in automobile credit, more than 60 percent.

The two feature articles in this issue are an outgrowth of Professor H. C. M. Case's proposals for revision of national farm legislation published in the July issue of the *Review*.

THE CASE FARM PROGRAM PROPOSALS
THE NATIONAL INTEREST IN A FARM PROGRAM

By Charles F. Brannan
By Charles B. Shuman

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Page 7

ILLINOIS BUSINESS REVIEW

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. The *Review* will be sent free on request.

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Controls and Inflation

The fighting in Korea has placed a serious strain on our economy. Coming in the midst of a peacetime boom, it is feared that the diversion of material for military needs will decrease the amount of goods available to consumers. At the same time incomes will no doubt increase, so that more consumer dollars will be bidding for fewer consumer goods. The result might be a rise in prices and a possible inflationary spiral, not to speak of a lower standard of living. How to avoid such a state of affairs is a crucial question to business, consumers, and the government alike, as is evidenced by the Defense Production Act of 1950.

Our Productive Facilities

Before discussing possible remedies, let us first consider the likelihood of such a situation. In other words, is it possible for us to produce enough goods to meet both civilian and military requirements? In the only reasonably similar period in our history, 1940-41, we were able to do so with considerable success. However, as numerous people have already pointed out, the basic difference between our position today and that in 1940 is that we are now undertaking rearmament with the economy already near peak production, whereas plenty of excess capacity existed in 1940. Hence, it is asserted, any increase in military production now would have to be largely at the expense of civilian production. And since incomes would no doubt rise still further as a result of this increased spending and of increased wages, a shortage of goods relative to spending power is highly probable, with tremendous upward pressure on prices.

Any evaluation of the validity of this reasoning has to be based upon some assumption as to the future course of events abroad. If, however, it can be assumed that the fighting will remain localized in Korea and that Russia and China will provide little aid to the North Koreans, there is good reason to believe that no real shortages will develop and that prices can be held in check. The assertion that the economy was operating at a near-capacity rate at the outbreak of hostilities is true only with reference to peacetime operations. In relation to its wartime potentialities the economy is actually far below capacity. As was noted in this column last month, most firms were then working on a five-day-week, one-shift basis. Labor shortages in most occupations can be

remedied by increasing the work week of the present labor force and/or by calling back housewives and students. Productivity has increased. And the capacity of most industries has risen substantially since the last war.

It is interesting to note that the Federal Reserve index of industrial production, which attained a new postwar high of 204 in August, was still nearly 20 percent below the wartime high of 247 in October-November, 1943. The absorption of some \$30 billion of new military orders annually without substantial price increases in an economy now turning out about \$275 billion of goods and services a year is therefore quite possible.

Are Controls Needed?

Does this therefore mean that price and production controls are unnecessary? The answer is no, for three reasons. First is the fact that prices can rise even when no shortages exist, as is evident from our experience of the past few months. Since the outbreak of hostilities in June, prices have risen sharply (Chart on p. 5), not because of shortages, but because of hysteria. Consumers were worried about possible future shortages, and ran to buy every item that was in short supply during the last war. Business firms rushed not only to replenish low inventories, but also to build up sizable reserves as well. Not a few concerns boosted prices simply to be assured of a comfortable base in case of price control. All these factors are probably only temporary; in fact, consumer spending has already fallen off from the July level. Although the imminence of the holiday shopping season will undoubtedly act to bolster spending, it would not be surprising if the cessation of panic buying and replenishment of inventories were followed by a temporary decline in business activity. But if the turn of events is likely to be such as to lead to a continuance of panic buying, price controls are surely desirable.

Another reason for controls is the possibility of local shortages. Our experience during and immediately after the last war has shown that bottlenecks in particular commodities almost invariably arise when the economy is operating near capacity. This is particularly true when many plants are in the process of reconversion from peace to war production, as will be the case during the next few months. Such shortages occur in the labor supply as well as in materials, for the availability of a plentiful number of lathe operators, for example, over the nation does not necessarily mean a plentiful supply in every labor market area. These shortages are dangerous not only in themselves but because they tend to promote competitive bidding for the material, often to the detriment of the defense effort. Any price rises resulting from them are likely to become widespread. Price ceilings on such commodities are therefore clearly desirable; such ceilings might even be temporary, and could be lifted as soon as the shortage disappears.

A third reason for controls is as a precautionary measure, just to make sure that things don't suddenly get out of hand. The motive for such a step is expressed by the age-old saying that it's better to be safe than sorry, for in the present world situation there is no telling when a sudden turn of events is likely to produce a new wave of panic buying. Since such a step would undoubtedly include wage controls, it would also be effective in forestalling a new round of wage increases and any inflationary spiral resulting therefrom.

If our reasoning proves correct and the economy is

(Continued on page 8)

TELEPHONE AND TELEGRAPH EQUIPMENT

Last year Americans made an average of 180 million telephone calls every 24 hours. There were telephones on half the farms and in about 65 percent of all the homes in the United States in 1949. Since Alexander Graham Bell invented the telephone 74 years ago, the manufacturing and operating telephone industries have grown enormously. The number of telephones in operation more than doubled between 1920 and 1941 and then increased more than 75 percent to a 1949 total of over 41 million phones in service.

The Census of Manufactures does not break down the value of products shipped by the telephone and telegraph equipment industry in 1947 by states, but Illinois was clearly the leader, employing over half of the 76,000 workers in the industry. Product value for the industry as a whole in 1947 was \$689 million, nearly six times the figure for 1939. The total number of firms manufacturing telephone and telegraph equipment doubled during the same period.

A good deal of the growth in telephone production has been at the expense of telegraph apparatus, which contributed only 3 percent of the total product value of the industry in 1947. Western Union, the only telegraph company now in operation in the United States, derives a major part of its present revenues from commercial and industrial service rather than from social communications, which formed a large part of its business before long distance telephoning became popular.

The Operating Telephone Companies

Although most people don't realize it, nearly one-fifth of the nation's phones are operated by independent telephone companies outside the Bell Telephone System. With 82 percent of the telephones in operation, Bell is by far the most prominent system in the industry, but the 6,000 independent companies, which tie in with Bell only for long distance calls, serve two-thirds of the communities in America. These independents employ about 90,000 people and are located primarily in the smaller towns, most of them serving fewer than 500 phones each.

The independents got started about 1894 when the basic Bell patents ran out. Many small towns weren't willing to wait until the Bell System came to them and formed telephone companies of their own. One of the largest independents in the country was started as a doctor's private system for his patients.

Soon many cities had two or more competing telephone companies, but this proved to be so inconvenient that the public finally demanded interconnection when long distance telephoning became possible. In order to alleviate this situation, Bell bought out other companies in some areas and sold out to independents in others. The Bell System bought the last big city independent in Philadelphia as recently as 1944.

Illinois Telephone Manufacturers

The Western Electric Company of Chicago became

the sole manufacturing unit of the Bell Telephone System in 1881. Several other companies in the Chicago area started production of telephone instruments and switchboards as soon as the Bell patents expired. More and more firms began manufacturing telephone equipment to supply the growing list of independent phone companies, and by the turn of the century Chicago was the center of the telephone production industry.

Today the manufacture of telephone equipment is no more exclusive to the Bell System than is the operation of telephone exchanges. The large Western Electric plant at Hawthorne has been outstanding in the industry for years, but it was only one of more than a dozen manufacturers of telephone and telegraph equipment in Illinois reported in the 1947 Census. Several of the large independent producers of telephone equipment in the State were among the earliest manufacturers in the industry and have been responsible for many of the engineering advances in the field.

The Automatic Electric Company was founded in 1891 by the inventor of the dial telephone system, which was used by many independent companies before it was adopted by Bell. Other long-time leaders of independent production include the Kellogg Switchboard and Supply Company, the Cook Electric Company, and the Reliable Electric Company, in Chicago; and the Leich Electric Company in Genoa.

The Kellogg Switchboard and Supply Company has become one of the world's largest independent manufacturers of telephone equipment. Kellogg, which has world-wide distribution, makes practically all of the parts that make up both outside and inside telephone systems. It made the first cradle type telephone and had the first Bakelite molding department in the industry.

The oldest and largest of the Western Electric Company plants is the Hawthorne Works, which employs 19,000 people in the Chicago area. It was for years the source of all Bell telephones and had the major responsibility of meeting the pent-up demand for Bell System phones after the war.

Switchboard equipment and plant construction, including cable, were found to be the main bottlenecks in Bell's rapid postwar expansion. Therefore, the Hawthorne plant was soon turned over to the manufacture of central office wire and switchboards, which still remain its major products.

The Teletype Corporation of Chicago is a subsidiary of Western Electric, turning out instruments for the automatic transmission of typewritten messages, the backbone of army communications in World War II.

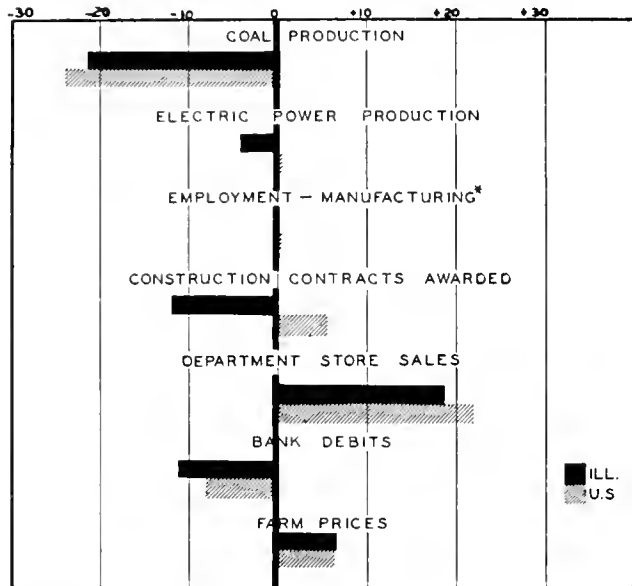
Besides furnishing equipment for telephone companies, Illinois telephone and telegraph manufacturers make complete inside and outside telephone systems and parts, as well as such products as telegraph apparatus, alarm systems, and remote control signals which are used by foreign governments, railroads, ocean liners, mines, factories, and offices all over the world.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage Changes June, 1950, to July, 1950



* Figure for Illinois not available.

ILLINOIS BUSINESS INDEXES

Items	July 1950 (1935-39 = 100)	Percentage Change from	
		June 1950	July 1949
Electric power ¹	257.2	- 3.6	+ 6.8
Coal production ²	93.2	-21.3	+16.8
Employment—manufacturing ³	n.a.		
Payrolls—manufacturing ³	n.a.		
Dept. store sales in Chicago ⁴	248.1 ^a	+13.6	+22.2
Consumer prices in Chicago ⁵	179.2	+ 1.6	+ 3.0
Construction contracts awarded ⁶	551.0	-11.9	+39.3
Bank debits ⁷	286.2	-11.1	+ 7.6
Farm prices ⁸	245.0	+ 6.6	+11.4
Life insurance sales (ordinary) ⁹	184.6	- 5.7	+13.1
Petroleum production ¹⁰	240.5	+ 5.4	- 2.1

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Repts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	July 1950	Percentage Change from	
		June 1950	July 1949
	Annual rate in billion \$		
Personal income ¹	219.0 ^a	+ 0.9	+ 7.6
Manufacturing ¹			
Sales	259.2 ^a	+ 1.4	+26.3
Inventories	32.0 ^{a,b}	0.0	- 1.2
New construction activity ^{1*}			
Private residential	14.6	+ 7.1	+60.5
Private nonresidential	8.9	+ 4.6	+ 2.9
Total public	8.3	+ 6.0	+ 8.6
Foreign trade ¹			
Merchandise exports	9.3	-11.6	-14.0
Merchandise imports	8.5	+ 3.6	+55.9
Excess of exports	0.8	-66.8	-85.8
Consumer credit outstanding ²			
Total credit	20.3 ^b	+ 3.6	+25.6
Installment credit	12.6 ^b	+ 4.5	+35.0
Business loans ²	14.0 ^b	+ 3.1	+ 9.3
Cash farm income ³	27.6	+26.7	+ 6.1
	Indexes (1935-39 = 100)		
Industrial production ²			
Combined index	197 ^a	- 1.0	+22.4
Durable manufactures	235 ^a	- 0.8	+27.0
Nondurable manufactures	181 ^a	0.0	+17.5
Minerals	146 ^a	- 3.3	+18.7
Manufacturing employment ⁴			
Production workers	156 ^a	+ 0.8	+ 8.1
Factory worker earnings ⁴			
Average hours worked	108	0.0	+ 4.1
Average hourly earnings	244	+ 0.5	+ 3.8
Average weekly earnings	263	+ 0.5	+ 8.0
Construction contracts awarded ⁵	601	+ 5.6	+50.5
Department store sales ⁵	363 ^a	+21.8	+29.2
Consumers' price index ⁴	173	+ 1.4	+ 2.4
Wholesale prices ⁴			
All commodities	202	+ 3.6	+ 6.1
Farm products	232	+ 6.1	+ 5.9
Foods	217	+ 5.7	+ 6.3
Other	187	+ 1.8	+ 4.4
Farm prices ³			
Received by farmers	246	+ 6.5	+ 6.9
Paid by farmers	205	+ 0.4	+ 2.4
Parity ratio	103 ^c	+ 6.2	+ 5.1

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.

^a Seasonally adjusted. ^b As of end of month. ^c Based on official indexes, 1910-14 = 100. * Data revised; not comparable with figures in previous issues.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1950					1949
	Aug. 26	Aug. 19	Aug. 12	Aug. 5	July 29	Aug. 27
Production:						
Bituminous coal (daily avg.).....	1,817	1,880	1,813	1,760	1,793	1,314
Electric power by utilities.....	6,346	6,370	6,253	6,247	6,190	5,523
Motor vehicles (Wards).....	171.9	183.4	180.3	173.2	185.5	148.5
Petroleum (daily avg.).....	5,629	5,637	5,603	5,568	5,448	4,717
Steel.....	195.7	216.3	215.8	215.0	212.0	175.1
Freight earloadings.....	837	851	847	837	845	747
Department store sales.....	291	281	273	296	295	252
Commodity prices, wholesale:						
All commodities.....	166.0	164.9	165.6	165.3	163.7	152.7
Other than farm products and foods.....	155.1	154.1	154.5	153.4	151.7	145.0
28 commodities.....	316.1	310.2	307.5	304.3	303.1	247.6
Finance:						
Business loans.....	14,512	14,359	14,187	14,022	13,911	12,942
Failures, commercial.....	176	186	194	168	160	176

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Gains

Industrial production recovered during August, with the Federal Reserve Board's preliminary estimate at 204 percent of the 1935-39 average. The 3.6 percent rise over July's 197 took the index to the highest point in five years and a new peacetime record. Steel output averaged better than 97 percent of capacity over the month, or about 1,880,000 net tons of ingots and castings weekly. Instead of making its customary annual revision of capacity, the steel industry this year has made the change at mid-point, and is now calculating output on the basis of the July 1 capacity of 100,563,500 tons annually. Automotive production remained high despite the interruptions of various walkouts, averaging about 178,000 cars and trucks weekly. Total August output is estimated at 820,000 vehicles.

Record Employment

Only a few months after considerable concern was expressed over declining employment, the number of workers on the job reached a new high of 62,367,000 in August, the first time employment has gone over 62 million. Nonfarm employment, at more than 54 million, also reached a new peak. The substantial increase over July was attributed partly to the Korean crisis and partly to seasonal factors. With unemployment down to 2.5 million workers, some of whom must be regarded as unemployable, shortages of certain types of skilled labor are already being reported. Bureau of Census data, in thousands of workers, are as follows:

	August 1950	July 1950	August 1949
Civilian labor force.....	64,867	64,427	63,637
Employment.....	62,367	61,214	59,947
Agricultural.....	8,160	8,440	8,507
Nonagricultural.....	54,207	52,774	51,441
Unemployment.....	2,500	3,213	3,689

Labor unrest flared during August, with strikes in a number of important industries. A nation-wide rail tie-up by 300,000 trainmen and conductors was averted only by Federal seizure of the railroads. Chrysler granted 120,000 workers a raise of 10 to 15 cents an hour, mainly to cover increases in cost of living since a three-year contract was signed in May. Disputes at Ford, Packard, and Kaiser-Frazer were settled with the signing of contracts along the lines of the GM agreement: straight pay raises, annual productivity increases, provision for cost of living adjustments, and pensions of \$125 monthly.

In farm machinery, International Harvester and John Deere workers were also out on strike. Strikes in other industries hit General Electric and a New Jersey plant of the U. S. Rubber Company; and a strike of more than 6,000 UMW District 50 workers in soda ash production was beginning by early September to affect output of numerous products dependent upon the chemical.

Manufacturers' Sales Rise

Sales by manufacturers continued to rise in July and reached a total of \$21.6 billion after seasonal adjustment. Durable goods sales were down from \$9.6 billion to \$9.4 billion, mainly because of vacations. Nondurables, however, were up 3 percent to \$12.2 billion, with sizable gains in textile and apparel sales.

New orders increased \$700 million during the month to a total of \$22.8 billion, exclusive of aircraft orders

for which data were not available. Total order backlogs for durables were up by \$2.2 billion, with all industries sharing in the increase. Textile orders were an important factor in the \$500 million increase in new orders for non-durables, which totaled \$12.1 billion for July. Unfilled orders for nondurables rose \$800 million.

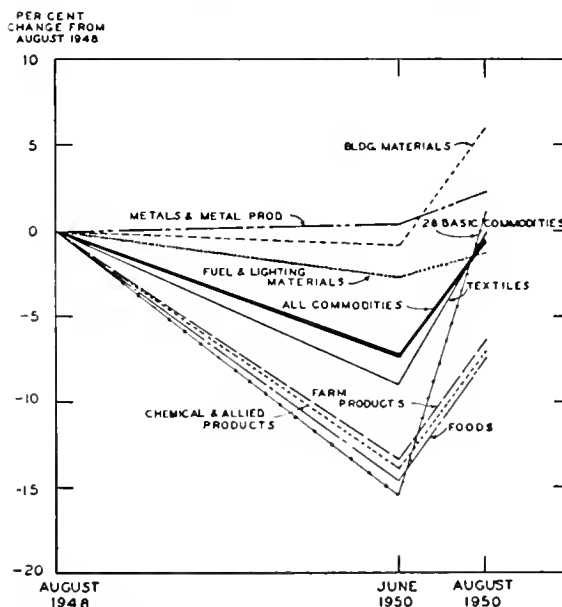
Prices Advance

Some indication of the extent of the recent price rises is shown in the chart below, which compares prices of June and August, 1950, with those of August, 1948, when the price level was at its postwar peak. The sharpest rise between the end of June and the end of August occurred in the prices of basic commodities, such as steel scrap, nonferrous metals, rubber and cotton, but other important groups — farm products, foods, textiles, building materials, and chemicals — also showed large gains ranging from 7 to 10 percent. Many commodity groups have recovered in two months almost all the ground lost from August, 1948, to mid-1950. In most cases, the larger portion of the advances occurred during July.

Farm prices also have shown large increases since June. The index of prices received by farmers increased from 247 to 267 (1910-14 = 100) over the two months, with most of the rise coming in early July. Prices paid rose only 3 points over the same period to 258. Consequently, the parity ratio rose from 97 to 103. Cotton and cotton-seed prices were up sharply on the release of the Department of Agriculture's latest estimate of a short 1950 cotton crop combined with the outbreak of hostilities in Korea.

The latest report on consumers' prices, that for July 15, indicated a rise of 1.4 percent in the month preceding that date, mainly because of a sizable advance in food prices. The index for all consumers' goods and services rose from 170.2 to 172.5 (1935-39 = 100); foods were up from 204.6 to 210.0. Other groups remained about level or showed very small increases.

WHOLESALE PRICE INDEXES



Source: Bureau of Labor Statistics.

THE CASE FARM PROGRAM PROPOSALS

CHARLES F. BRANNAN, Secretary
United States Department of Agriculture

This opportunity to comment on the farm program article by Professor Case, which appeared in the July issue of the *Review*, is one that I appreciate.

All of us who realize the vital importance of a sound farm policy should welcome constructive proposals and discuss them freely. Such proposals have been too few.

Professor Case's article serves at least three good purposes. It is a reminder that the national debate on farm policy has not been settled and that we are still in search of ideas on which most of us can agree. It correctly points out some of the problems with which we have been confronted and which we have not been able to meet under present legislation. It emphasizes a number of important objectives of farm policy.

Objectives of Proposals

Although the author does not say so specifically, he is of course offering his proposals as alternatives to other suggestions for improving the present program, including those suggestions which were presented early in 1949 by the Department of Agriculture and widely discussed since that time.

It should be remembered that the Department proposals did not cover the entire field of agricultural policy but rather aimed at improving the price support program. We listed as objectives six ways in which a farm income and price support program can serve the interests of all the people. We said, "It can help do these things: Prevent depression, build bigger industrial markets and employment, maintain high-level production of farm commodities, conserve natural resources, maintain reserves for national security, and strengthen the rural community."

Professor Case states more limited objectives. For example, instead of proposing direct means to prevent depression, he suggests that the program should "provide price-support floors to protect farmers in periods of severe depression." I do not believe that farmers or the rest of the nation should be satisfied with this. One of our major aims should be to prevent a depression—not merely to prevent complete disaster after one arrives.

His other three "major points of attack" state good objectives. One is to encourage farmers to adopt better cropping systems. The payment scheme he proposes for doing this deserves serious consideration. Another suggestion he makes is to "help operators of uneconomic-sized farm units to make the adjustments needed to improve their economic situations." I agree completely with this objective. However, I cannot discover in Professor Case's outline any implementation for this proposal except the regulation of large units through taxation. More about that later. His fourth major point is "encourage improved dietary habits." With this I agree also, but the school lunch program is the only specific method he suggests. As he himself indicates, this is not likely to be sufficient except possibly in times of full employment.

Professor Case offers an extremely limited kit of "tools" for farmers to use in reaching the stated objectives. His outline appears to provide only a somewhat revised Agricultural Conservation Program, plus 50-75 percent of parity price support on "major commodities"

through direct payments to farmers, plus a school lunch program and regulatory taxation of big farms.

Experience indicates it is unrealistic to hope that even the limited objectives stated will be reached with no more program assistance than he suggests.

Price Supports

The most disturbing feature of this article is what it omits. The reader, knowing that Professor Case carried a great deal of responsibility for development of the sliding scale of support, would naturally expect to find some reference to it. A great many farmers have vigorously opposed the sliding scale, and although much of the "slide" has been taken out of it, the principle is still in the law. It is still an issue and needs to be met rather than avoided.

Although the professor made one reference to "inflexible" support (the word which some people erroneously use to identify the sliding scale), I frankly do not know whether he proposes to retain or abandon the sliding scale.

He also ignores other questions that are important to farmers.

Which commodities should be eligible for support? Which should have priority in the application of support? He mentioned support for "major farm products." Does he mean to include milk, hogs, cattle, sheep, eggs, and chickens along with the old so-called basic commodities?

If support is to range from 50 to 75 percent of some defined parity, what would determine which farmers would receive assurances at 75 percent of parity and which at only 50 percent? Before farmers "buy" a program, they have a right to know what the general principles would mean in specific terms.

By what methods would support be applied? It is not entirely clear to me whether Professor Case proposes to do away entirely with commodity loans. I believe he does. He proposes that conservation payments based on county-average land-use patterns should be adjusted to make up for low farm income, evidently as a substitute for or a supplement to price support.

He appears to oppose maintenance of a security reserve of storable commodities. I regard this as an extremely serious weakness from the standpoint of both agriculture and the general welfare.

Would support be provided to all producers of supported commodities? Or only to those participating in the conservation program? There is still considerable controversy over the question of making conservation a requirement for the benefits of price support.

If support is to be provided through payments, how large would the payments need to be in order not only to make up for low farm income when necessary, but also to encourage conservation?

If payments were to be used for adjusting farm income, some standard would be needed for defining fair income and giving the Congress a sound basis for deciding how much to appropriate. This would be necessary even if the intent were to assure only 50 percent of fair income. At present, no definition of fair income that is

(Continued on page 8)

THE NATIONAL INTEREST IN A FARM PROGRAM

CHARLES B. SHUMAN, President
Illinois Agricultural Association

Our conception of the proper functions of the Federal government in the affairs of the citizenry has undergone a marked change during our national life. The Revolutionary War was in part a result of the colonists' great desire for a reduction in the powers of a centralized government. Year after year the demands of citizens for more and more governmental services have resulted in a huge Federal government, which today exerts far more control over the individual American than the British ever possessed. We have come to accept the task of creating a favorable economic climate for all segments of our nation as one of the functions of government. It is not my purpose to argue for or against this concept of government; however, it is necessary to recognize this fact as a basis for discussing farm programs.

The Role of Government

Traditionally, farmers have resented the interference of government in their business affairs. However, during the recurrent periods of agricultural economic sickness which resulted from the great cyclic changes in general price levels, farmers observed that other groups were able to turn to government for special assistance which seemed to help these groups weather periods of adversity. They saw the protective tariff change from a device to encourage infant industries to a powerful tool which facilitated production control and price-fixing mechanisms in industry and labor. As America changed from an agricultural to an industrial nation, farmers were concerned with the passage of more and more legislation for the benefit of special economic interests. Fair-trade pricing and minimum-wage laws are only some of the more recent forms of an already far advanced trend. It was only natural that farmers should follow the example set by business and labor and turn to the Federal government for assistance in bringing agricultural price levels into balance with the remainder of the economy.

Many of us in agriculture are convinced that dependence upon government by any group for special economic assistance, except in dire emergency, is unsound. It can only lead to a larger and more powerful bureaucracy and, finally, to complete nationalization of all enterprise. It is because of these convictions that our organization has been exploring ways and means of reversing the trend in agricultural programs. However, unless labor and business are willing to join with us in abandoning some of the special privilege legislation which they enjoy, our efforts will fail. Many industrial and labor groups give lip service to the cause of free enterprise and a competitive economy but are unwilling to relinquish the governmental aids which enable them to restrict production and control prices.

While it is true that agriculture is a minority group in our population, yet the impact of long-continued periods of farm price disparity on our national economic welfare is terrific. Thus, it is in the general national interest that agricultural income be in balance with the national income. The national interest in a parity position for agriculture runs in three general directions. Agriculture as a consumer of the products of labor and industry is of primary importance, and long periods of

price maladjustment result in drastic curtailment in consumption by a very important consumer group. Second, a long-time unbalanced agricultural price structure results in serious depletion of our essential soil fertility. During low price periods, farmers are forced to market much of the nation's future natural resources. A third result of agricultural price disparity is the tendency to over-adjust production to apparent changes in demand. It is not easy to adjust the agricultural plant to changes in demand, because of the time required to enter or abandon agricultural production. Consumers pay a penalty for unreasonably cheap food as extremely low prices often generate later periods of scarcity. All these results of agricultural price depression are of serious consequence to the nation and justify the interest of all citizens in farm programs.

Yardsticks for a Farm Program

If we are to examine farm programs in the light of the general public welfare, we should consider some standards or yardsticks. Certainly the following points should be considered in the process of evaluating the various legislative proposals. It should be understood that these standards are not necessarily agreed to by anyone other than the author.

1. Price support programs in agriculture should be designed only to prevent drastic collapse in the price of basic agricultural commodities and not to guarantee a profit. Support levels should be flexible.
2. Farm programs should protect the public interest in the conservation of natural resources.
3. The ideal program should result in encouraging the expansion of international trade and the sale of surpluses of agricultural commodities in available foreign markets.
4. Farm programs should increase rather than curtail the need for the agricultural extension educational program.
5. The program should consider the national interest in maintaining adequate reserves of strategic agricultural commodities to protect against the hazards of crop failure and war.
6. It should avoid the use of direct subsidy payments and should be designed to operate at the very minimum of cost.
7. Compliance with government agricultural programs should be on a voluntary basis.

While the present farm program meets these requirements in many respects, it is also deficient on several counts. Some degree of flexibility is provided; yet the support levels are relatively high and there is certainly not sufficient emphasis placed on proper soil conservation. The present program will also probably continue to be rather costly.

The Brannan and Case Proposals

Another current proposal that has considerable political support is the plan advocated by Secretary of Agriculture Brannan. When measured by the above seven

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The Case Farm Program Proposals

(Continued from page 6)

usable for program purposes is available, and Professor Case suggests none.

Cost of Program

He is perfectly correct in saying that the cost of his program would be limited by Congressional appropriations. But this is generally true of the present program, and it would be specifically true of the program recommended by the Department of Agriculture. Under the Case proposal or any other, there are just two circumstances that can keep appropriations low: (1) high farm income from the markets, or (2) abandonment of a fair-income objective for agriculture.

It seems fair to say that the Case program would not attempt to assure anything more than 75 percent of parity. If so, the dollar cost of the program should be moderate even if market returns declined markedly, but somebody would then have to pay the price of an agricultural depression. In the past, the farmer has paid first, and the whole nation has eventually had to pay a high price.

Assuming that many farmers did not care to participate in the Case acreage reduction rental program, what would be done about excess market supplies? Would payments be increased to induce participation? Would marketing quotas be used?

The way to discourage industrialization of farming or development of big-scale operations, Professor Case suggests, is to use the taxing power for regulatory purposes. My own suggestion was much milder. It was merely to *withhold price support* on that *part* of a farm's production which exceeded the production of the biggest family-

size farms (with no limit at all in the case of production under marketing quotas). Of course, neither of those suggested measures would go far toward the objective stated by Professor Case: "Help operators of uneconomic-sized farm units to make the adjustments needed to improve their economic situations." The Department has recommended for this purpose a broad program of specific measures in addition to those in our price support program.

The final major deficiency of Professor Case's outline on which I shall comment is one which is more apparent in the light of the Korean situation than it may have been at the time the article was written. I refer to the lack of any definite means of encouraging quick adjustments in production. The Department's proposals were based on successful wartime experience in making adjustments. The Case outline apparently provides for an even less effective adjustment mechanism than is provided by present legislation.

In stating my opinions forthrightly, I hope I have not made them sound harsh or unfriendly. On the contrary, I think we should be grateful to Professor Case for making definite proposals. I wish he had directly tackled more controversial questions. I do not believe the program he has proposed would go far toward meeting the serious problems of which farmers are distinctly aware or that it would sufficiently protect the interests of consumers.

However, he has had the courage to make a target rather than to follow the lead of so many others and merely indulge in destructive criticism. I hope that his outline will stimulate the thinking of many persons so that decisions will be crystallized and so that our programs soon may be more completely fitted to our needs.

The National Interest in a Farm Program

(Continued from page 7)

standards, the Brannan Plan offers no advantages over the present program and certainly has additional dangers. The proposed level of price supports is very high, and in applying them to practically all perishable crops the potential cost would be tremendous. Administration of the Brannan Plan would be extremely complicated and could result in an even greater agricultural bureaucracy. The idea of cheap food for consumers, with high prices for producers at the same time, is a very attractive political dream but it ignores the fact that the cost of food to the consumer includes many items other than the price paid to the farmer for his product.

The present farm program is the result of many years of experience together with considerable political compromise. It has many good features that should be preserved; therefore, it seems reasonable to consider proposals for revision rather than radical changes. Professor H. C. M. Case, Head, Department of Agricultural Economics, College of Agriculture, University of Illinois, offered some very valuable suggestions in the July issue of the *Illinois Business Review*. Professor Case suggests a simple program of incentives to encourage an increased acreage of hay and pasture coupled with support prices for major crops at 50 percent to 75 percent of parity to prevent periods of price collapse. This type of revision of the existing farm program would be a long step towards building a program in line with the seven standards suggested.

Controls and Inflation

(Continued from page 2)

found to have even more capacity than was originally thought, selective price and production controls properly administered through the new Economic Stabilization Agency would be all that are needed to keep things in order. Supplementary controls, such as credit restrictions and higher interest rates, would also be useful, as would an increase in taxes to prevent purchasing power from rising too rapidly. In fact, the greater is the increase in taxes, the less will be the pressure of purchasing power on prices.

Nevertheless, if prices do keep rising, the imposition of general price and production controls would be best for all concerned. Everyone has to shoulder the burden of a government deficit, generally through paying higher taxes for many years to come. The more prices rise, the more it will cost the government to rearm, and the heavier will be the burden on the taxpayer. This is not to speak of the hardships caused by higher prices on various segments of the population, such as the lower income groups and people with fixed incomes. Although price and production controls have many undesirable features, it is better to have controls without inflation than inflation without controls.

RF

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Westinghouse Developments

The Westinghouse Electric Corporation has announced the development of an electronic pressure gauge that accurately measures the most perfect vacuum yet produced by science. It can detect the presence of air in a vacuum where only one air molecule remains out of every 10,000 billion originally present. Developed specifically for the study of atoms, electrons, and radiation in gas-filled tubes such as fluorescent lamps and electronic tubes, the new gauge will also make possible a better understanding of how gases seep through metals.

Another Westinghouse development is a radically new electrical insulation that will make possible the construction of larger power plant generators by reducing electrical insulation losses. It consists of mica flakes imbedded in tough, heat-resistant synthetic resin which has sufficient stretch to expand and contract with the generator coils. Called Thermalastic, it allows for the different rates of expansion of copper, iron, and insulation when heat is applied.

Air in Concrete

The National Bureau of Standards has found a way to substitute air bubbles for sand in concrete used in farm building construction. Air not only replaces the sand, but makes the concrete lighter in weight, more resistant to water infiltration, and a better insulator against heat and cold. The cement, tested in the walls and roofs of farm buildings, is mixed in the normal way except that an industrial aerating agent or detergent is added to make the mix form and become porous.

New Burroughs Machines

The Burroughs Adding Machine Company has announced three new additions to its line. One is an accounting machine which contains a prearranged set of controls for specific jobs, each control unit having four entirely different accounting programs which may be removed and replaced by another unit designed for four more totally different accounting jobs. Another new machine will eliminate the large stock of tickets presently required by railroads, airlines, and buses by automatically printing tickets to any destination from blank stock, showing the date, serial number, fare, and type of ticket. The latest Bell and Howell microfilm recorder, which Burroughs distributes and services, reproduces photographically both sides of a document simultaneously and can turn out check-size documents at a rate of more than 400 per minute.

Speed Reducer

A new double reduction speed reducer for electric motors is now being produced by the Winfield H. Smith Corporation to serve fractional horsepower requirements. Designed for the transmission of small power loads, the reducer is totally enclosed in a single compact housing and offers a range of 1/20 to 1/8 horsepower. This range of speed and power is said to eliminate the necessity of employing bulky, expensive speed reducers with horsepower ratings many times greater than may be required.

Temperature Testing

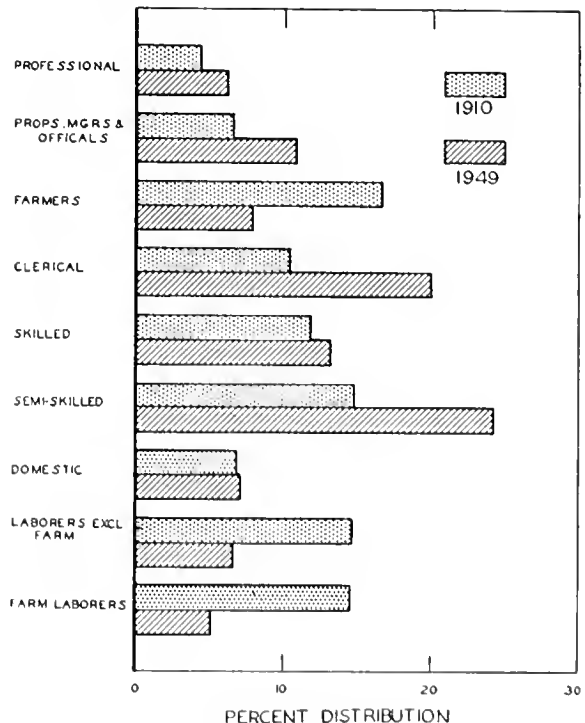
A new approach to laboratory temperature testing has been made by the development of complete sets of matched precision thermometers by the Weston Electrical Instrument Corporation, Newark, New Jersey. Nine matched thermometers with overlapping ranges, available in either Centigrade or Fahrenheit scales, provide relatively low-cost but very accurate temperature measuring instruments for engineers, scientists, and laboratory technicians. The thermometers, which are 15 inches long, are made from extra-heavy glass and are annealed and marked with individual ice points for reference.

Labor Report

The July Anniversary issue of the *Monthly Labor Review* contains a special section entitled "Fifty Years' Progress of American Labor." It not only discusses the old and the new in labor statistics and labor legislation, but brings the reader up to date on many different aspects of the nation's labor force—its organizations, its relations with the government, and its quest for security.

Since 1900 the nation's manufacturers have placed increasing emphasis on improving and expanding mass production, a trend which has changed the occupational composition of the nation's employment opportunities. As shown by the chart, between 1910 and 1949 there was a substantial increase in the proportion of workers in semi-skilled occupations and a sharp decline in the proportion engaged in laboring occupations and farming. The percentage of workers employed in skilled trades rose slightly and there was a considerable increase in the importance of professional and clerical workers.

COMPOSITION OF THE LABOR FORCE



Source: Bureau of Labor Statistics.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity in July continued well above last year's level. The impact of the Korean fighting on the State's economy had begun to be felt as prices rose, employment in mid-July did not show its usual seasonal decline, and department store sales increased contra-seasonally in many Illinois cities.

Prices

The index of consumers' prices of living essentials in Chicago advanced 1.6 percent from mid-June to mid-July to 179.2 percent of its 1935-39 average, the highest point reached since September, 1948. Food prices, up 3.3 percent, led the advance. Slight gains occurred in all other major groups of commodities and services except fuel, electricity, and refrigeration. Food prices also advanced in Springfield and Peoria. The Springfield index of retail food prices on July 15 stood at 223.5 percent of its 1935-39 average, up 4.3 percent from June 15 and 7.2 percent above last July. The Peoria retail food cost index rose to 226.2 percent of its 1935-39 average, a 2.6 percent gain in the month.

The Illinois index of prices received by farmers rose 7 percent from June to July and on July 15 was 273 percent of the 1910-14 average. By August 15, however, the index had declined to 271 percent, because of lower prices for seeds, fruits, and soybeans. Meanwhile, the U. S. index of prices paid by farmers rose 2 points during the period, causing the Illinois parity ratio to decline from 107 in July to 105 on August 15.

Construction

In contrast to the national situation, which in July showed an all-time monthly record for value of construction contracts awarded, value of contracts awarded in Illinois in July was down approximately 12 percent from the June figure. The July decline, primarily due to a sharp drop in residential building, appeared to be general throughout the State, as 11 of the 18 cities for which

building permit data are collected showed decreases in total value of permits issued during the month. Despite the decline, value of contract awards in the State for the first seven months of this year was approximately 46 percent greater than in the same period of 1949.

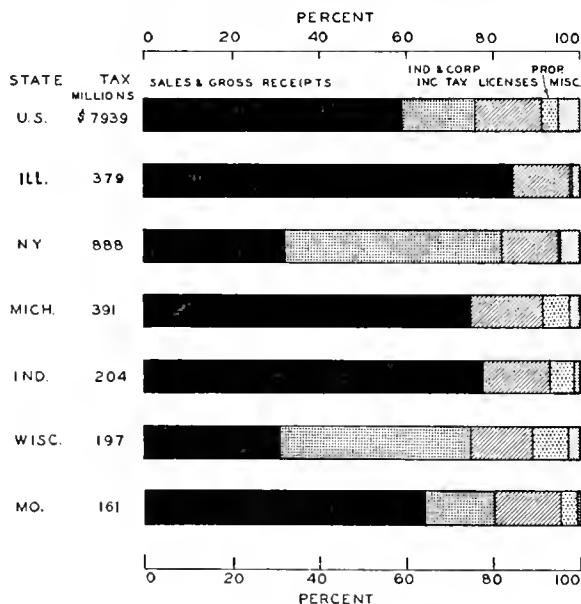
The Federal Housing Administration recently announced approval of loans for local slum clearance programs for 52 Illinois cities. The loans, totaling approximately \$22 million, represent 1950 allocations under the National Housing Act. Illinois led all states in number of cities applying and amount of loans authorized.

Contracts totaling \$1.5 million were recently awarded by the State Division of Highways for road improvements in 51 Illinois counties.

Investments in industrial facilities reported for the Chicago area during August approximated \$62 million. This is the highest monthly total since July, 1942. Included in the August investment programs are plans of Carnegie-Illinois Steel and Inland Steel companies to expand the production capacity of their Chicago plants. Vulcan Mold and Iron Company is constructing a million dollar plant in Lansing, Illinois. The new plant will employ some 150 persons and is designed to produce approximately 50,000 tons of ingot molds and accessories a year. International Harvester Company has started construction of a \$5 million plant at Broadview which will be used as a parts depot and machine transfer plant. Catalin Corp. of America announced that it will expand its recently completed Calumet City plant because of the strong demand for its liquid resin products.

As a part of its five-year freight car modernization program, the Illinois Central Railroad recently authorized freight car construction costing \$5.9 million. One thousand boxcars will be built in the company's shops at Centralia. The Pennsylvania Railroad has placed an order for 1,000 steel boxcars with the Pressed Steel Car Company of Mt. Vernon, in addition to the order for 2,000 cars placed last May.

STATE TAX COLLECTIONS, BY MAJOR SOURCE (Fiscal year ending June 30, 1950)



Source: *State Tax Collections in 1950*, Bureau of the Census.

Sales Tax Collections

Illinois tax revenue for the fiscal year ending June 30, exclusive of collections from the Unemployment Compensation Tax, was \$379 million, up 0.8 percent from 1949. Collections from the Unemployment Compensation Tax, sometimes included in the total tax revenue figure, are held in trust for benefits to covered workers and thus are not available to meet other State expenditures. The relative importance of the sources of tax revenue for Illinois, as compared with that of neighboring states, New York, and the total for all states, is shown in the accompanying chart.

As is illustrated by the chart, Illinois relies more heavily than other states on its sales and gross receipts taxes, which include collections from motor fuel, alcoholic beverage, tobacco, and other taxes, as well as revenue from the general sales tax. The proportion of the State's revenue derived from sales and gross receipts taxes is relatively greater than the combined proportion from sales, gross receipts, and income taxes in the 5 other states shown. New York and Wisconsin do not have a sales tax. Of the 28 states which have a sales tax, California reported the greatest revenue from this tax, Michigan was second, and Illinois was third. Illinois is one of 15 states which have neither an individual nor a corporation income tax.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

JULY, 1950

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
ILLINOIS		\$37,687 ^a	755,457 ^a	\$488,698 ^a		\$8,921 ^a	\$ 9,012 ^a
Percentage Change from	{ June, 1950	-7.2	-1.7	+4.0	-8.0	-11.4	-15.1
	{ July, 1949	+174.9	+9.2	n.a.	+23.1	+7.6	+4.7
NORTHERN ILLINOIS							
Chicago							
Chicago		\$28,645	594,463	\$359,538		\$8,058	\$7,847
Percentage Change from	{ June, 1950	-2.3	-1.7	+4.1	-10.1	-11.9	-16.0
	{ July, 1949	+194.6	+9.6	n.a.	+22.3	+7.0	+3.6
Aurora							
Aurora		\$ 748	n.a.	\$6,533		\$ 38	\$ 65
Percentage Change from	{ June, 1950	-25.5		+2.3	-1.1	-5.9	-14.2
	{ July, 1949	+165.2		n.a.	+35.1	+15.7	+10.7
Elgin							
Elgin		\$ 357	n.a.	\$5,128		\$ 24	\$ 50
Percentage Change from	{ June, 1950	-61.9		+5.4	-12.8	-13.7	-22.6
	{ July, 1949	+96.2		n.a.	+23.3	+11.1	+3.2
Joliet							
Joliet		\$ 427	n.a.	\$8,802		\$ 42	\$ 61
Percentage Change from	{ June, 1950	+1.2		+4.7	-1.9	-2.0	+27.2
	{ July, 1949	-47.5		n.a.	+32.7	+15.6	+40.2
Kankakee							
Kankakee		n.a.	n.a.	\$4,769		n.a.	\$ 25
Percentage Change from	{ June, 1950			+7.5	+17.9		-0.7
	{ July, 1949			n.a.	+55.1		+22.8
Rock Island-Moline							
Rock Island-Moline		\$1,488	14,577	\$ 9,476		\$ 32 ^b	\$ 98
Percentage Change from	{ June, 1950	+33.3	-4.5	+13.6	n.a.	+1.4	-25.6
	{ July, 1949	+134.7	-3.7	n.a.		+15.0	+6.0
Rockford							
Rockford		\$1,033	20,081	\$14,840		\$ 101	\$ 124
Percentage Change from	{ June, 1950	-15.5	-3.8	+5.9	-10.0	-12.5	-11.5
	{ July, 1949	+359.1	+20.6	n.a.	+19.4	+21.8	+7.7
CENTRAL ILLINOIS							
Bloomington							
Bloomington		\$ 360	4,425	\$ 5,118		\$ 42	\$ 62
Percentage Change from	{ June, 1950	+125.0	+1.1	-2.1	n.a.	+1.5	-6.6
	{ July, 1949	+33.8	+12.1	n.a.		+8.1	+19.5
Champaign-Urbana							
Champaign-Urbana		\$1,000	6,475	\$ 7,063		\$ 43	\$ 50
Percentage Change from	{ June, 1950	+180.9	-1.8	+2.5	n.a.	-4.2	-21.6
	{ July, 1949	+455.6	+10.4	n.a.		+13.1	+6.2
Danville							
Danville		\$ 310	6,385	\$ 5,372		\$ 38	\$ 44
Percentage Change from	{ June, 1950	-6.7	-10.1	-1.0	+9.1	+7.3	-6.2
	{ July, 1949	+136.6	+1.1	n.a.	+23.7	+8.2	+28.5
Decatur							
Decatur		n.a.	14,222	\$ 8,762		\$ 69	\$ 70
Percentage Change from	{ June, 1950		+1.5	+2.4	+11.9	-1.0	-10.1
	{ July, 1949		+6.9	n.a.	+37.3	-1.0	+4.9
Galesburg							
Galesburg		\$ 146	4,566	\$ 3,945		n.a.	\$ 27
Percentage Change from	{ June, 1950	-54.2	+3.0	+1.4	n.a.		-4.4
	{ July, 1949	-8.8	+5.6	n.a.			+17.5
Peoria							
Peoria		\$ 713	41,623 ^c	\$16,294		\$ 188	\$ 161
Percentage Change from	{ June, 1950	-63.3	-2.0	+3.9	-0.2	+0.5	-3.5
	{ July, 1949	+120.1	+12.1	n.a.	+13.3	+17.1	+15.9
Quincy							
Quincy		\$ 309	6,160	\$ 4,773		\$ 30	\$ 54
Percentage Change from	{ June, 1950	-74.7	-1.0	+5.1	+7.0	-5.3	-21.6
	{ July, 1949	+247.2	+3.7	n.a.	+18.0	+9.1	-7.9
Springfield							
Springfield		\$ 714	19,084 ^c	\$11,976		\$ 77	\$ 164
Percentage Change from	{ June, 1950	-48.4	-1.0	+1.6	+9.7	-6.3	-11.6
	{ July, 1949	+58.7	+3.6	n.a.	+48.3	+12.7	+9.6
SOUTHERN ILLINOIS							
East St. Louis							
East St. Louis		\$1,062	9,477	\$ 8,154		\$ 115	\$ 56
Percentage Change from	{ June, 1950	+215.1	-2.1	0.0	n.a.	+2.2	+37.1
	{ July, 1949	+848.2	+5.1	n.a.		+9.6	+32.1
Alton							
Alton		\$ 155	9,548	\$ 4,376		\$ 25	\$ 22
Percentage Change from	{ June, 1950	-8.3	+0.7	+7.9	n.a.	-6.5	+1.6
	{ July, 1949	+1.3	+1.5	n.a.		+15.5	+4.8
Bellefonte							
Bellefonte		\$ 220	4,371	\$ 3,779		n.a.	\$ 30
Percentage Change from	{ June, 1950	-36.8	+5.1	+2.0	n.a.		+7.4
	{ July, 1949	+249.2	+0.0	n.a.			+26.4

Sources: ¹U. S. Bureau of Labor Statistics. Data include Federal construction projects. ²Local power companies. ³Illinois Department of Revenue. Data are for June, 1950, the most recent available. Comparisons relate to May, 1950. ⁴Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵Local post office reports.

^a Total for cities listed.

^b Moline only.

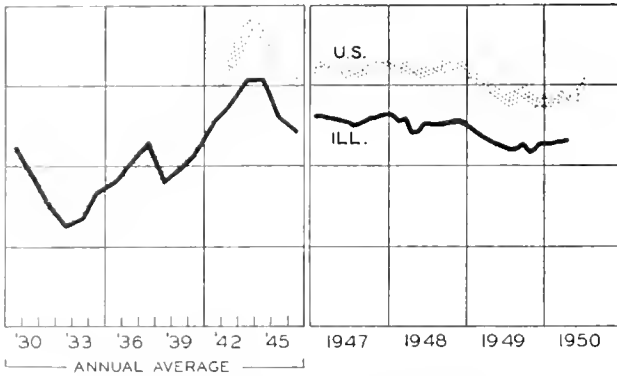
^c Includes immediately surrounding territory.

n.a. Not available.

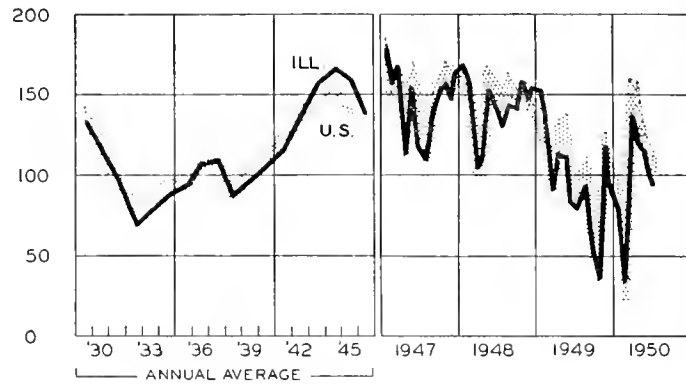
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

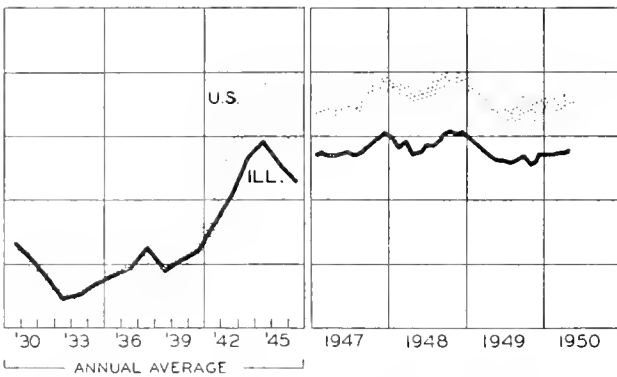
EMPLOYMENT-MANUFACTURING



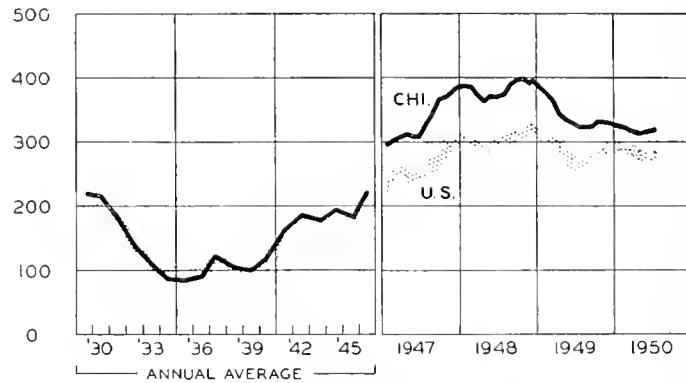
COAL PRODUCTION



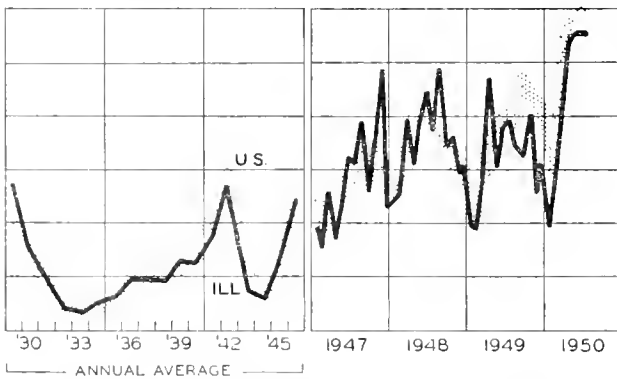
PAYROLLS-MANUFACTURING



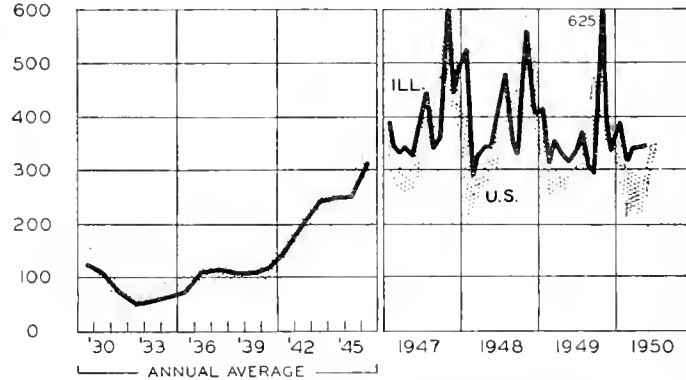
BUSINESS LOANS



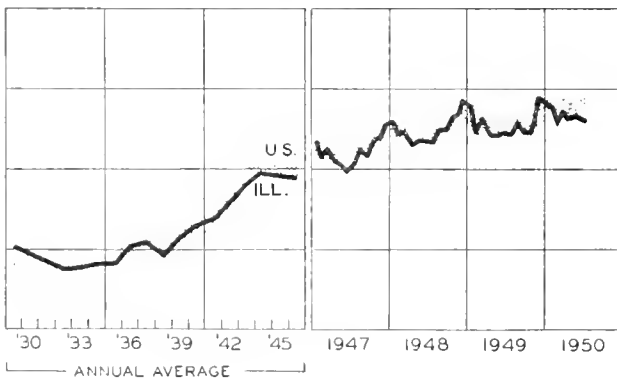
CONSTRUCTION CONTRACTS AWARDED



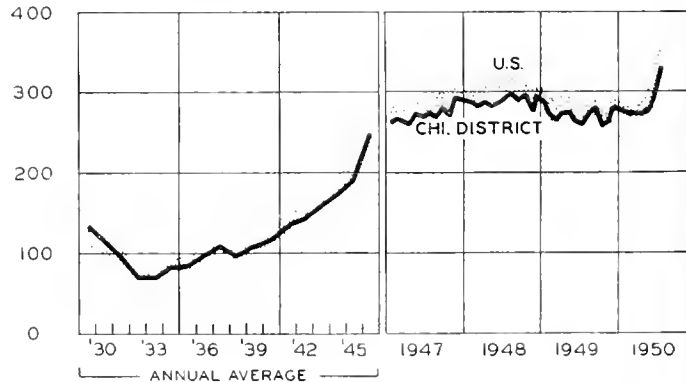
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



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p. 2

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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HIGHLIGHTS OF BUSINESS IN SEPTEMBER

The 1950 boom continued to gain momentum as it neared World War II levels. Industrial production reached 212 on the Federal Reserve Board index, up from 174 in September, 1949, and the highest since June, 1945. Producers of steel, copper, zinc, aluminum, and a host of other industrial materials were operating at or near full capacity. Manufacturing output continued at high levels, paced by the textile, automotive, and television industries. A record 702,000 television sets were produced in August, and more than four million sets were made during the first eight months of 1950, thus already topping 1949 production.

The boom reached these proportions without benefit of much actual defense spending. Orders have not yet been heavy, and those contracts which have been let have not yet resulted in employment and goods. Much of the planning of 1950 will not be reflected in production until 1951 or 1952. When the belated effects of defense spending are felt, powerful new impetus will be given the boom. Private outlays for machines and equipment should also increase, as plants now building are set in operation.

Construction Still Mounting

Construction put in place during September totaled \$2.8 billion, one percent above the August high and 26 percent above September, 1949. Actual industrial construction, although increasing, was dwarfed by planned plant expansion in steel, railroads, chemicals, textiles, automobiles, pipelines, and electric utilities. Residential construction continued at high levels, although the rate of increase slowed somewhat in September, perhaps from shortages and credit curbs.

Some materials shortages became evident, especially in metals and industrial raw materials and building supplies, and some vestiges of the gray market reappeared. As controls began to divert materials into the defense program, these shortages became more prevalent.

Manpower Shortages Looming

Employment in September reached 61.2 million, a peacetime record for the month and up about 2 million over September, 1949. Unemployment dropped 159,000 from August, now totaling about 2.3 million, or approximately half the early 1950 figure.

Unemployment resulting from materials shortages began to appear in a few industries and cities, but the

shortage of manpower was a more general problem. Although this labor shortage was still localized and largely confined to the skilled trades, general shortages were appearing in a few large cities only recently plagued by unemployment. Meanwhile, wage increases continued and the work week lengthened.

Prices Steadier Near Highs

Prices continued at high and rising levels, but most prices had steadied from their dizzying summer rises. Wholesale prices, led by textiles, rose 1.3 percent to 169.4, virtually equal to the August, 1948, peak. Prices received by farmers followed suit, and the parity ratio rose from 103 in mid-August to 105 in mid-September. Inflationary elements, including unprecedented demand, a record volume of credit, developing material and manpower shortages, and recurring cost increases, were at work. Some price declines have occurred, notably in lumber, wool, sugar, and rubber, but these have often been merely adjustments from the sharp increases of midsummer.

Government price curbs have thus far been largely confined to restricting credit on new houses and consumers' durable goods. Initial regulations proved inadequate and have already had to be tightened.

Trade and Dollar Position Changing

The position of the United States in the world economy has been changing. Our chronic postwar export surplus narrowed in 1950, August imports exceeding exports for the first month since 1937. Soaring imports, coupled with United States foreign aid, private investment, and tourist outlays, have greatly improved the balance of payment position of most foreign nations. Second-quarter estimates indicate that foreign countries increased their gold and dollar reserves by \$640 million, plus another \$150-\$200 million in gold production added to reserves. Since devaluation in September, 1949, they have increased their gold and dollar holdings by \$1,550 million, compensating for the depletions of 1948 and 1949.

As a by-product of improved payment positions, many currencies are now rising relative to the dollar. The British pound has made marked gains, and the entire sterling area has registered advances. A striking demonstration of the new strength of foreign currencies was provided when Canada removed controls at the end of the month. Its dollar rapidly moved toward parity with ours.

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Size of the Military Program

With reports of the approaching end of hostilities in Korea, rumors have been widely circulated that there will be a coordinate letdown in rearmament efforts. The Administration has flatly denied this possibility, and vigorously affirmed its intention of pushing preparedness. These developments spotlight the question of how large our mobilization program should be.

The conflicting views may be briefly summarized: On the one side, it is pointed out that after every war public sentiment has demanded a relaxation of controls and a reduction in military spending and the armed forces, and that even present programs cannot be carried through without the stimulus of battlefield reports. On the other, the Korean "police action" is regarded, not as a war, but merely as a preliminary incident in a larger conflict, which will require large program expansions to protect our international position.

Cost of a Three Million Man Force

President Truman has announced a goal of three million for the strength of the armed forces. It should be clear that this figure has no significance beyond that of a temporary basis for mobilization planning. Forces of 3 million are nowhere near sufficient for a major war effort; they may be more than necessary for sporadic "police actions"; and judgments of their adequacy as mobilized reserves vary greatly with views of the imminence of a third world war. Obviously, it is a goal subject to change without notice.

For purposes of mobilization planning and economic analysis, however, 3 million may be as good as any moderately higher figure. Even that number is being approached slowly; and production of military goods is still further behind the rates of output that mobilization planning regards as consistent with a force of this size.

Assuming, then, that we shall build on the basis of 3 million, what rates of military spending may be expected? As a beginning, pay and support have recently averaged about \$3,000 a year per man; and allowing for only a moderate increase, annual payrolls alone would total \$10 billion.

Beyond this first simple fact, the question becomes more complicated. How rapidly is it desired to equip these forces with new, up-to-date weapons? Should equipment be supplied merely for these forces, or stockpiled to

permit putting a much larger force into the field quickly? What prices must be paid to obtain required rates of output? These and other troublesome questions have important effects on the answer, so that only the roughest of estimates is possible.

The experience of the last war, allowing for price changes and greater emphasis on air operations, would suggest that non-payroll expenditures may amount to something over \$10,000 a year per man. This would require an annual rate of over \$30 billion for equipment and supplies. Thus the total yearly bill for the mobilization now contemplated, including payrolls, supplies, and military assistance to the Atlantic Pact countries, would be in the neighborhood of \$45 billion.

Appropriations and Expenditures

The appropriations already provided by the Congress for these purposes total roughly \$32 billion. The ending of the Korean war may put some drag on the expansion of this total, but at the same time efforts to increase it will be intensified. By the end of the year all the funds now appropriated will have been committed, and there will be important items not yet provided for. At least some additional appropriations are to be expected.

Expenditures will lag substantially behind appropriations because of necessary delays in getting goods produced and delivered. President Truman has announced that an annual rate of military expenditures of \$30 billion would be reached by mid-1951. Allowing for developments and difficulties that can now be foreseen, this may prove a fairly realistic estimate. Projecting such estimates still further indicates that the rate of increase in expenditures will be very high in mid-1951, sufficient, when carried forward, to produce an annual rate of expenditures of approximately \$40 billion by the end of the year. What happens thereafter inevitably depends upon interim developments in the international situation, but a rate of expenditure equal to the \$45 billion consistent with a 3 million man armed force may be attained early in 1952.

Such a rate of expenditure may well be reached even though next year's appropriations are not correspondingly increased, because carry-over funds and previous authorizations supplement current appropriations. At the beginning of this fiscal year, carry-overs may be assumed to total at least \$10 billion. Reaching an annual rate of expenditures of \$30 billion by the middle of next year implies total expenditures for fiscal 1951 of only about \$21 billion, or more than another \$10 billion short of appropriations. This means that more than \$20 billion will be carried over into fiscal 1952. With only a moderate increase in appropriations, the projected build-up can be effected.

Financial and Economic Effects

An interesting aspect of the situation is that the sharp increases in military spending during the next two years will produce little or no problem of government finance, because the inflation of incomes and profits that is now under way will produce even larger increases in government receipts. The Federal cash budget seems likely to be balanced in fiscal 1951; and if Congress passes even a moderate excess profits tax, to which it now appears to be committed, no substantial cash deficit may be incurred even in fiscal year 1952.

But what of the economy generally? What kind of economic situation does this program imply, and what kinds of action may it be expected to call forth?

(Continued on page 9)

X-RAY APPARATUS

For a number of years Illinois has been an outstanding state in the production and development of X-ray apparatus. It was reported to be the leading state in the nation in the manufacture of X-ray and therapeutic equipment in both the 1939 and 1947 Censuses of Manufactures. In 1947, Illinois was responsible for over 40 percent of the \$60 million total product value for the industry, 80 percent of which was from X-ray equipment.

The 1947 Census listed 24 Illinois establishments making X-ray and therapeutic apparatus, the majority of which were medium-sized concerns in the Chicago area manufacturing primarily medical equipment. Until recently the General Electric X-Ray Corporation, a subsidiary of General Electric and one of the largest producers of X-ray equipment in the country, was located in Illinois at Chicago and played an important part in the development and prominence of the industry in this state.

An Outstanding Medical Discovery

X-rays, which are very similar to the wave-like radiations of visible light, were discovered in 1895. A German scientist, Professor Wilhelm C. Roentgen, was charging a vacuum tube with an electric current when he noticed that a near-by paper coated with a fluorescent chemical was glowing from invisible rays given off by the tube. These rays were found to penetrate cardboard, wood, and cloth easily, and when Roentgen put his hand in front of the illuminated paper he saw the bones projected in silhouette. Concluding that flesh was transparent to the rays whereas bone structure was not, he immediately saw the possibility of taking pictures, or radiographs, using the rays to darken a photographic negative where they penetrated, revealing the hidden structures of the human body as light streaks on the film.

This discovery opened a whole new field of medical diagnosis through radiography, which leaves a permanent image on film, and through fluoroscopy, the visual study of X-ray shadows on a fluorescent screen, which shows organs in operation. Therapeutically, X-rays have been found useful in treating skin disorders, malignant growths, and certain types of acute infections. Medical use, the largest market for X-ray equipment, accounted for almost 70 percent of X-ray product value in 1947.

Industrial Radiography

Because almost all hospitals and radiologists are equipped with X-ray apparatus, they provide primarily a replacement market. Expansion in the industry is more likely to come through its second largest market, industrial radiography, which uses X-ray equipment for the inspection of castings and welds.

Ordinary industrial radiography equipment is similar to medical X-ray units. Both are built around a vacuum tube through which a current of electrons passes, striking a metal target and releasing the radiations called X-rays. The most powerful of this vacuum tube X-ray equipment, 2-million-volt units, can penetrate 12 inches of metal.

A variant of the vacuum tube type of equipment is X-ray diffraction apparatus, which has become standard equipment in industrial and academic research for the analysis and identification of materials. The technique of X-ray diffraction, as originally used for the study of single crystal structures, utilizes a small pencil of X-rays, generated below 50,000 volts and directed through a crystal to register the pattern indicative of its atomic or molecular arrangement on a photographic film.

The largest exclusive manufacturer of X-ray diffraction equipment in the world is the Hayes Scientific Appliances Company in Urbana, a pioneer in this field. Hayes customers include many of the largest corporations in American industry and most of the nation's universities, and a good deal of its equipment is shipped abroad.

The Betatron

The betatron is a sort of super X-ray machine with higher voltages and resultingly greater penetration than ordinary X-ray equipment. A hollow doughnut-shaped cylinder takes the place of a conventional vacuum tube. In it, the electrons are whirled around and accelerated by magnetic impulses until they attain a velocity that corresponds to whatever voltage is desired and are allowed to hit a target, releasing X-rays.

Although most people connect the betatron almost exclusively with physics research, particularly atomic energy research, it has great industrial potentiality for the detection of faults in very heavy sections of metal.

The discovery of imperfections in large industrial parts before expensive machining can result in a considerable saving, and makes the purchase of \$100,000 betatrons, which can penetrate 20 or more inches of metal, a practical investment for large foundries.

In contrast to ordinary X-ray equipment which superimposes and blots out the internal parts of a machine on a radiograph, betatron negatives clearly show each part. They are therefore also valuable for studying new product designs and for showing up the causes of faulty action in large mechanical devices.

The original betatron, a 2.3-million-volt machine, was developed in 1940 by Dr. D. W. Kerst at the University of Illinois. Today the largest betatron in the world, a 340-million-volt unit, is owned by the University, which is a recognized center of betatron research.

It is expected that the betatron will have extremely important medical applications. University of Illinois equipment was used for the first betatron treatment of cancer in 1949 in Urbana, and indications are that such equipment will make an outstanding contribution to the treatment of malignant growths.

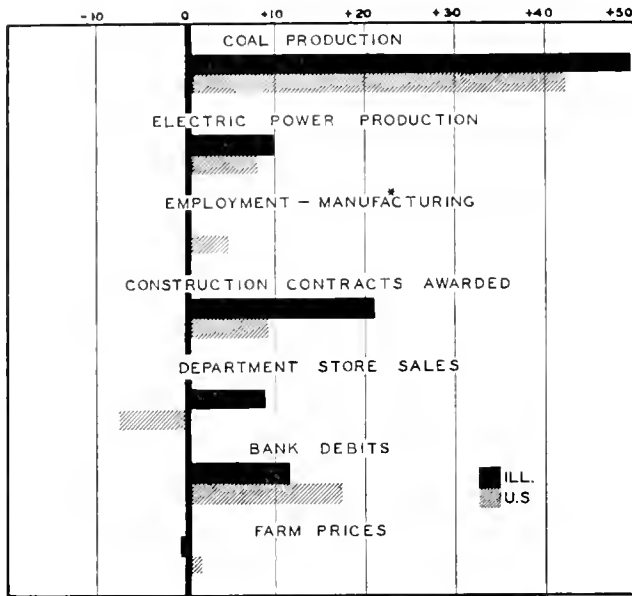
Even though most of the present interest and expansion in the use of X-ray equipment is in the direction of higher voltages and greater penetration, lower voltage apparatus is far from becoming obsolete either for industrial or for medical use and should continue to be a major product of the industry.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage Changes July, 1950, to August, 1950



* Figure for Illinois not available.

ILLINOIS BUSINESS INDEXES

Items	August 1950 (1935-39 = 100)	Percentage Change from	
		July 1950	August 1949
Electric power ¹	282.7	+ 9.9	+ 8.5
Coal production ²	139.4	+49.6	+46.4
Employment—manufacturing ³	n.a.	.....	.....
Payrolls—manufacturing ³	n.a.	.....	.....
Dept. store sales in Chicago ⁴	269.8 ^a	+ 8.7	+18.3
Consumer prices in Chicago ⁵	180.2	+ 0.6	+ 3.3
Construction contracts awarded ⁶	665.8	+20.8	+93.7
Bank debits ⁷	319.4	+11.6	+22.5
Farm prices ⁸	243.2	- 0.7	+10.6
Life insurance sales (ordinary) ⁹	222.7	+20.6	+41.6
Petroleum production ¹⁰	240.3	- 0.1	- 4.2

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Repts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	August 1950	Percentage Change from	
		July 1950	August 1949
	Annual rate in billion \$		
Personal income ¹	223.4 ^a	+ 2.0	+ 9.3
Manufacturing ¹			
Sales	291.6 ^a	+12.0	+28.6
Inventories	31.6 ^{a, b}	- 0.6	- 0.3
New construction activity ^{1*}			
Private residential	15.4	+ 5.0	+64.5
Private nonresidential	9.2	+ 2.6	+ 4.4
Total public	8.7	+ 4.0	+ 5.9
Foreign trade ¹			
Merchandise exports	9.1	- 1.7	-13.8
Merchandise imports	9.8	+15.5	+66.8
Excess of exports	-0.7	....	....
Consumer credit outstanding ²			
Total credit	21.0 ^b	+ 3.1	+27.5
Installment credit	13.0 ^b	+ 3.2	+35.3
Business loans ²	14.7 ^b	+ 5.1	+13.7
Cash farm income ³	32.4	+15.2	+12.0
	Indexes (1935-39 = 100)		
Industrial production ²			
Combined index	207 ^a	+ 5.6	+21.8
Durable manufactures	245 ^a	+ 3.8	+26.9
Nondurable manufactures	191 ^a	+ 5.5	+15.8
Minerals	158 ^a	+ 9.7	+22.5
Manufacturing employment ⁴			
Production workers	161 ^a	+ 2.7	+10.7
Factory worker earnings ⁴			
Average hours worked	110	+ 1.7	+ 5.4
Average hourly earnings	245	+ 0.1	+ 4.6
Average weekly earnings	269	+ 1.8	+10.2
Construction contracts awarded ⁵	655	+ 9.1	+71.0
Department store sales ²	335 ^a	- 7.5	+18.0
Consumers' price index ⁴	173	+ 0.3	+ 2.5
Wholesale prices ⁴			
All commodities	206	+ 2.1	+ 8.8
Farm products	234	+ 0.9	+ 9.4
Foods	221	+ 1.9	+ 8.7
Other	191	+ 2.5	+ 7.1
Farm prices ³			
Received by farmers	250	+ 1.5	+ 9.4
Paid by farmers	206	+ 0.8	+ 3.6
Parity ratio	103 ^c	0.0	+ 5.1

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ^a Seasonally adjusted. ^b As of end of month. ^c Based on official indexes, 1910-14 = 100. * Data revised; not comparable with figures in previous issues.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1950					1949
	Sept. 23	Sept. 16	Sept. 9	Sept. 2	Aug. 26	Sept. 24
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,902	1,879	2,013	1,837	1,830	338
Electric power by utilities.....mil. of kw-hr.....	6,457	6,449	6,029	6,459	6,346	5,556
Motor vehicles (Wards).....number in thous.....	179.3	176.3	144.3	178.4	171.9	150.8
Petroleum (daily avg.).....thous. bbl.....	5,826	5,870	5,839	5,690	5,629	4,875
Steel.....1935-39 = 100.....	216.9	215.2	211.7	209.8	195.7	178.0
Freight carloadings.....thous. of cars.....	870	866	751	852	837	661
Department store sales.....1935-39 = 100.....	322	368	295	310	288	292
Commodity prices, wholesale:						
All commodities.....1926 = 100.....	169.8	169.1	167.7	167.2	166.0	154.0
Other than farm products and foods.....1926 = 100.....	159.2	157.8	156.5	155.4	155.1	145.5
28 commodities.....August, 1939 = 100.....	330.6	332.5	326.9	319.9	316.1	247.9
Finance:						
Business loans.....mil. of dol.....	15,517	15,330	14,932	14,739	14,512	13,289
Failures, commercial.....number.....	155	165	145	143	176	169

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Continues Rise

Preliminary FRB data indicate that September industrial activity may have reached 212 percent of the 1935-39 base average, 5 points over the revised figure of 207 for August. Steel production continued at capacity levels, with average weekly output of over 1.9 million tons. Automotive output, down somewhat from August because of Labor Day and labor disputes, nevertheless averaged about 170,000 vehicles weekly; coal production was maintained at an average of more than 11 million tons weekly. Production of both durables and nondurables continues at a high level. Textile production especially has recovered from the lag in activity suffered earlier, reaching 187 percent on the FRB index during August.

Labor More Restless

The labor situation continued to be unsettled during September, as it was in August, as a result of the Korean hostilities. Prior to July, contract negotiations were long-drawn-out but remained fairly orderly, and were concerned chiefly with pensions. Since July, however, labor relations have been marked by a tendency toward many small, frequently unauthorized, stoppages and a few big strikes intended, in nearly all cases, to buttress demands for immediate and sizable wage increases. In addition, there have been numerous voluntary wage boosts, something almost unheard of in labor relations.

So many wage demands have been made and so many voluntary increases granted that Labor Secretary Tobin has asked organized labor to exercise restraint in asking for higher wages. Warning of the advance of inflation, Tobin urged that increases be held to cost-of-living rises or increases necessary to remove wage inequities.

One major dispute was settled, at least temporarily: the strike of UMW District 50 workers against various producers of soda ash ended with an agreement on a straight increase, with cost-of-living raises to come later; the pension issue, which was the primary cause of the work stoppage, remained unsettled. Pensions remain an important consideration elsewhere, also; Bendix workers won a contract similar to that at GM, as did General Electric workers after a short work stoppage.

Declines were the rule in employment and unemployment during September. The usual fall decline in the number of workers in the labor force appeared as students re-entered school, with a total of 1.3 million workers withdrawing. More than half the decrease came in nonagricultural employment, but agricultural employment also dropped and unemployment was down by 159,000 to the lowest point since December, 1948. Bureau of Census data, in thousands of workers, follow:

	September 1950	August 1950	September 1949
Civilian labor force.....	63,567	64,867	62,763
Employment.....	61,226	62,367	59,411
Agricultural.....	7,811	8,160	8,158
Nonagricultural.....	53,415	54,207	51,254
Unemployment.....	2,341	2,500	3,351

Manufacturers' Sales Up Substantially

Rising prices and a high level of demand combined to boost seasonally adjusted manufacturers' sales to \$24.3 billion during August, 12 percent over the previous month. Durable goods showed the larger percentage rise, from \$9.2 billion to \$10.5 billion. Nondurables sales rose from \$12.5 billion to \$13.8 billion. Iron and steel, elec-

trical machinery, motor vehicles, and lumber among durables, and textiles, apparel, chemicals, and petroleum among nondurables made the greatest gains.

New orders, totaling nearly \$28 billion, rose 15 percent over July. More than half of the advance occurred in durables. Inventories were pulled down \$200 million during the month; sizable declines in such nondurables as textile and petroleum stocks were important factors in the drop.

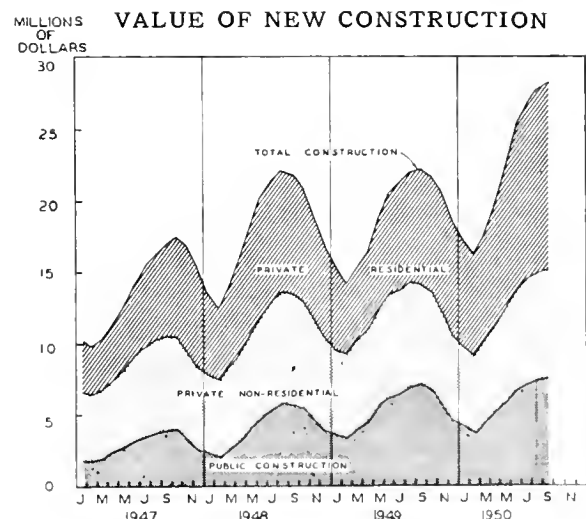
Construction Still Rising

Construction activity continued to rise during September despite restrictions imposed in July and the development of spot shortages of some materials. Total construction rose 1 percent over August to a new monthly record of \$2.8 billion, more than a fourth higher than September, 1949. A sizable increase in industrial building accounted for about half the gain although private residential building also showed a small advance. During the first nine months of the year, construction activity reached a total of more than \$20 billion, three-fourths of which was accounted for by private construction activity.

From early 1950 until September, private residential construction was increasingly important, as shown in the accompanying chart. It has risen considerably over the peaks of former years, whereas private nonresidential and public building continue to rise at about the same rate as in earlier postwar years. For the first eight months of the year, new housing starts totaled 988,400, more than during the whole of 1948 and more than 50 percent above the corresponding period of 1949. It appears, however, that residential building may be passing its peak, whereas industrial building may be expected to increase in response to the nation's defense needs.

Prices Less Jumpy

Following initial sharp increases after the outbreak of hostilities in Korea, price changes were less marked during September. The BLS index of 28 basic commodities had risen as much as 4 percent between August 31 and mid-September but by September 29 was down for a net advance of 1 percent. The over-all wholesale price index was also less unsettled, rising 1.3 percent to 169.4 (1926 = 100). The largest increase during the month oc-



Source: U. S. Department of Commerce.

curred in textiles, which rose more than 8 percent. Farm products and foods advanced about one-half of one percent each; prices of all other commodities were up 2.6 percent. The all-commodity index is now back to its postwar peak; farm products and foods are still below their postwar highs but all other commodities have reached a new peak.

The latest Department of Agriculture release on farm prices indicates that prices received rose from 267 to 272 (1910-14 = 100) between mid-August and mid-September. Prices paid by farmers rose only from 258 to 259; consequently the parity ratio continues to favor the farmer, moving from 103 to 105.

Between July 15 and August 15, the consumers' price index rose only 0.3 percent to 173.0 (1935-39 = 100), largely because a 0.5 percent decrease in food prices nearly offset small rises in the other groups—apparel, rent, fuel-electricity-refrigeration, housefurnishings, and miscellaneous. Seasonal declines in the prices of fresh fruits and vegetables more than counterbalanced higher prices for other foods. The postwar peak in consumers' prices, reached in August and September, 1948, was 174.5.

National Product Up

Gross national product, at annual rates, rose nearly 3 percent during the second quarter of 1950 to a new high of \$270 billion. The main increase occurred in domestic investment, as construction, purchases of equipment, and accumulation of inventories all showed substantial gains in response to the recovery of business after last year's slump. Building and equipment programs were revised upward and more optimistic sales prospects encouraged buying for stocks. Personal consumption expenditures were also up. Part of the increase is attrib-

GROSS NATIONAL PRODUCT OR EXPENDITURE (seasonally adjusted, billions of dollars at annual rates)

	2nd Qtr. 1950	1st Qtr. 1950	2nd Qtr. 1949
Gross national product	269.9	262.5	255.2
Personal consumption	184.5	182.4	178.4
Durable goods	26.7	26.9	23.0
Nondurable goods	99.0	97.5	99.2
Services	58.8	58.0	56.2
Domestic investment	45.9	40.5	31.3
New construction	20.9	19.9	16.8
Producers' durable equipment	21.6	19.3	19.8
Changes in business			
inventories	3.4	1.3	-5.3
Nonfarm inventories only	4.0	2.1	-4.5
Foreign investment	-2.0	-1.9	1.3
Government purchases	41.4	41.4	44.3

INCOME AND SAVINGS

National income	n.a.	217.2	217.8
Personal income	214.7	216.4	206.8
Disposable personal income	195.5	197.7	188.2
Personal savings	11.0	15.3	9.8

uted by the Department of Commerce to price rises, but the spending of National Service Life Insurance dividends and higher earned incomes were also factors. Buying of nondurable consumers' items showed an increase during the period after remaining about level for two quarters.

Total personal income and disposable personal income were down somewhat from the first-quarter highs, but were still higher than in other previous quarters. Exclusive of veterans' insurance refunds, personal income was estimated at \$213 billion, a rise of \$5 billion over the previous quarters. Personal savings remained substantially higher than those for the second quarter of 1949.

Capital Expenditures Up

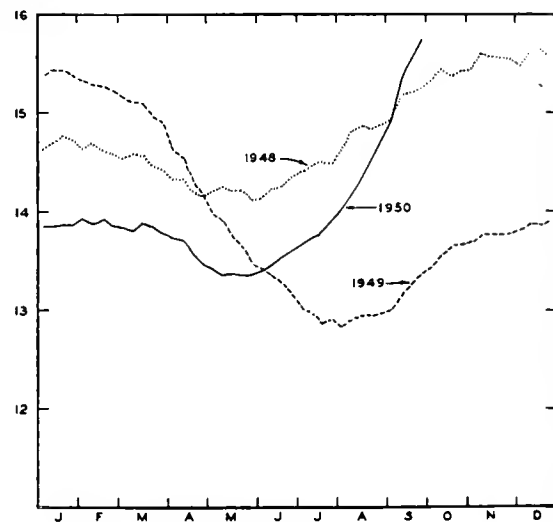
Capital investment continues to make a strong showing in response to increases in prices, sales, and profits, and the demands of national defense. Three months ago, anticipated expenditures on plant and equipment during the third quarter totaled \$4.5 billion; it is now expected that such outlays will reach \$5.1 billion, a 13 percent increase in which all major segments of industry shared. For the second half of the year, the total is estimated at \$9.8 billion, \$800 million over the comparable period of 1949. The Securities and Exchange Commission and the Department of Commerce, in their joint report, attribute about 40 percent of the gain to higher costs. Manufacturing, gas and electric utilities, and transportation other than railroads show the largest percentage gains. It appears, however, that some anticipated expenditures may not be made as scheduled, because of the unavailability of required materials and machines.

Loans Advance Rapidly

As shown in the accompanying chart, bank loans for commercial, industrial, and agricultural purposes were up sharply during September. A 7 percent boost from August 30 to September 27 raised the total of outstanding loans almost a billion dollars to \$15,725 million. The previous high point was set December 22, 1948. In one week, that ending September 13th, \$398 million was added. Weekly increases have occurred ever since the first of June despite the Federal Reserve Board's higher short-term interest rates imposed to minimize the inflationary factor.

Consumer credit outstanding has likewise reached a new high. At the end of August, the total had risen to \$21 billion, of which more than \$13 billion was accounted for by installment buying. In July and August, the monthly advances were well over \$600 million, with the major portion attributable to time purchasing. It is expected that the figure for the end of September will show another sizable increase despite credit restrictions put into effect by the FRB on September 18. Since then, tighter regulations have been announced, effective October 16. Automobile credit, for example, must be repaid in 15 months instead of the 21 months originally specified, but down payments remain at one-third.

BILLIONS OF DOLLARS
BUSINESS LOANS



Source: Federal Reserve Board.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Glass-fiber Piping

A new glass-fiber tube and pipe material has been developed as a replacement for steel and other critical war metals by the United States Plywood Corporation, New York City. The product is rust- and corrosion-proof and is said to have the strength of steel. It is essentially a light-weight laminated tubing in which glass fibers, in the form of cloth, mat, or tape, are bonded with resins into a tubing that is impervious to extreme heat, chemical action, and sledgehammer blows. The new material is being used as piping in the oil and chemical processing industries and as tubing in the building and electrical fields.

Titanium Products

Titanium and titanium alloy products are now being manufactured by Rem-Cru Titanium, Incorporated, a new firm which is jointly owned by the Remington Arms Company and the Crucible Steel Company of America. It is expected that titanium will be used, as aluminum and stainless steel are, where a light, strong, and corrosion-resistant metal is required. Rem-Cru's first commercial alloy was developed to meet the need of the aircraft industry for a formable structural sheet material with improved strength and weight properties in the intermediate temperature range. The new company, whose offices are at Bridgeport, Connecticut, is now supplying bar, sheet, plate, forgings, ingots, and billets of pure and alloyed titanium, and other forms such as strip, wire, and tubing will be made available as demand develops.

New Sulfuric Acid Process

The cost of producing sulfuric acid has been cut by as much as 20 percent of the present capital cost of a medium-sized sulfuric acid plant by a process developed by the Chemical Construction Corporation, New York City. Much simpler than the conventional contact process, it has eliminated seven major items of equipment and added a quench converter, bubble absorbers, and low-cost sulfuric acid mist eliminators. The first commercial-sized installation went into operation this summer in American Cyanamid's works at Hamilton, Ohio.

Refractory Material

The Babcock and Wilcox Company, New York City, has developed a refractory for lining high-temperature furnaces which is said to meet or surpass the specifications of present refractories but which will sell for one-half the usual price. Available in standard fire-brick sizes, the new material should enable savings not only in original cost but in furnace maintenance by reducing periodic repairs and lost production time due to shutdowns. It will not melt until it is heated to more than 3300° F. and even at that temperature it will support a 1,000-pound weight without deforming.

Diesel Fuel from Shale Oil

Diesel fuel refined from shale oil was used this fall for the first time to power a railroad train. The Denver and Rio Grande Western Railroad made an overnight Diesel run from Salt Lake City to Denver, using shale

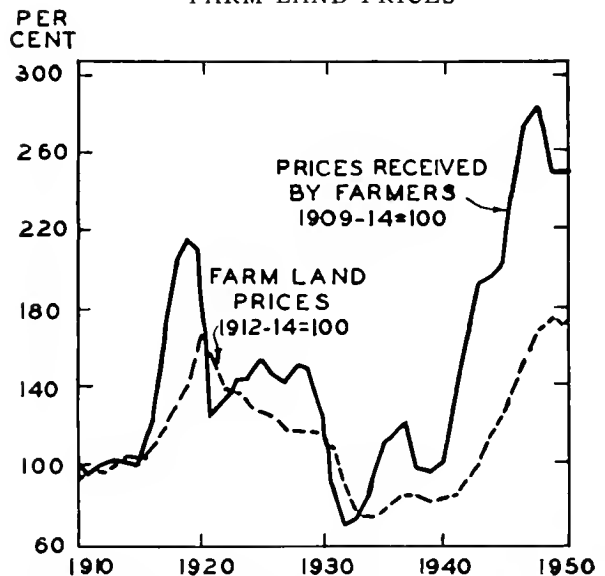
oil produced at an experimental mine and refining plant near Rifle, Colorado. Government officials said that 624 tons of shale yielded 3,750 gallons of Diesel fuel, an equal amount of gasoline, 6,660 gallons of heavy fuel oil, nearly 7 tons of coke, and other miscellaneous by-products. The project is regarded as one with long-term possibilities of providing additional oil reserves should petroleum resources be exhausted. Known shale deposits in Western Colorado are estimated at 100 billion barrels of oil, more than twice as much as has ever been produced in the United States from petroleum and several times the proved petroleum reserves in the ground.

Farm Land Prices Up

The September issue of *Banking*, the Journal of the American Bankers Association, contains an article entitled "Farm Land Prices Are on the Up," which points out that in March of this year the farm land price index increased for the first time since November, 1948. The index moved from 168 to 169 during the four-month reporting period beginning November, 1949, ending a decline from the all-time high of 177. By July the index of farm land prices had reached 172, an average increase of 2 percent for the country as a whole. Prices of Illinois farm land during the same period increased 1 percent.

The article attributes a good part of the upward movement to the present strong position of the livestock market and the increased demand for land suitable for raising cattle and hogs or for growing feed. It also points out that through the years there has been a definite correlation between farm land prices and the prices the farmer receives for his products. As shown by the chart, both reached an all-time low in the early 30's and an all-time high in 1948. Continued high industrial employment and the increasing purchasing power of the American people, accentuated by the Korean situation, are expected to maintain higher prices for both farm land and products.

FARM LAND PRICES



Source: *Banking*, September, 1950.

STATE-LOCAL FINANCE IN BUSINESS CYCLE POLICY

ROLF ALFRED WEIL

Associate Professor of Economics, Roosevelt College

Much attention has been concentrated in recent years on the use of Federal fiscal policy as an instrument for the stabilization of income, employment, and business conditions in general. Deficit financing by the Federal government during depressions and surplus financing during booms have commonly been accepted by economists as appropriate stabilization policies. A case could also be made that similar policies should be followed by all other units of government.

It has been recognized, however, that state and local governments could not independently engage in such a contracyclical fiscal policy. Their subsidiary units of government lack control over the money supply; they cannot significantly affect the level of income and employment within their own borders through fiscal action; and their taxing power is severely limited in that mobile firms will be influenced by effective tax rates in deciding on a business location. Moreover, constitutional and statutory tax-rate and debt limits, as well as restrictions on the types of taxes which can be employed by certain governmental units, can be cited as obstacles to independent state-local action against the cycle.

Role of Grants-in-aid

Because they realized these limitations of state-local finance, many writers in the field have tended to ignore the possibilities which exist for the intergovernmental coordination of fiscal policy. This may be unfortunate, because in the absence of such coordination Federal stabilization efforts may be partly or totally offset. This was the case during the booming twenties, when the state-local sector of the government engaged in deficit financing—thereby adding to purchasing power at the wrong time—and during the depressed thirties, when surplus financing by state and local governments reduced the effectiveness of pump-priming.

In some prosperous years like 1929, 1948, and 1949 deficits appeared in state and local finances, whereas in some years of substantial unemployment states and localities operated on a surplus. According to the *Survey of Current Business*, state and local governments showed the following surpluses and deficits in selected nonwar years (amounts in millions of dollars):

Year	Surplus or Deficit
1929	-118
1933	+ 38
1935	+689
1937	+861
1939	+346
1948	- 0 2
1949	- 1.3

In Federal grants-in-aid, however, we have a most promising tool for the intergovernmental coordination of a contracyclical fiscal policy. For many years Federal aid has been distributed, primarily to attain administrative coordination, to stimulate local governments to assume new functions, or to assure the better performance of old functions. Such grants have been made mainly for highway construction, performance of specified welfare functions, certain types of educational expenditures, and resource conservation activities. These grants have increased so rapidly during the past two decades that they

now are an important factor in both Federal and state-local budgets. The extent of this increase is evidenced by the accompanying chart.

Federal grant payments rose from \$108 million in 1929 to \$1.8 billion in 1949, about 10 percent of aggregate state and local expenditures in the latter year. In Illinois, for example, Federal grants accounted for \$89 million in 1949. As the table shows, the share of Illinois amounted

FEDERAL GRANTS AND ILLINOIS GRANT RECEIPTS, FISCAL 1949
(amounts in millions of dollars)

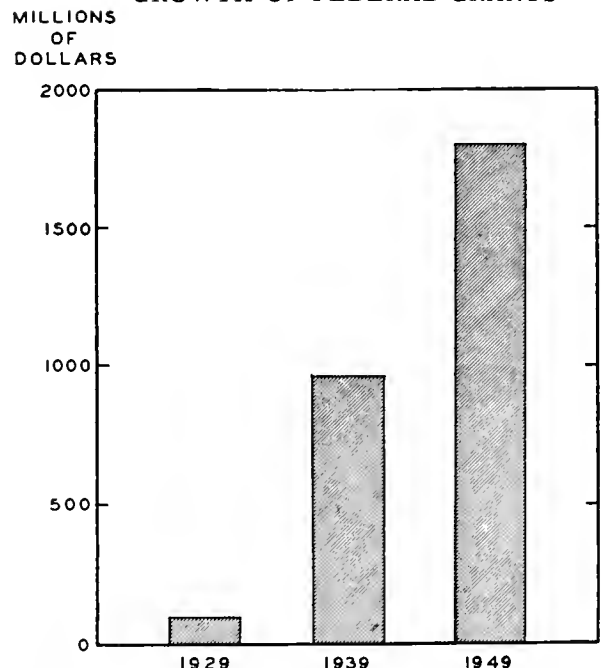
Government Activity	Federal Grants to States	Illinois Receipts from Grants
Health and welfare.....	\$1,111	\$58
Highways and Federal aid airports.....	435	20
Unemployment compensation and Unemployment Service Administration.....	137	7
Agriculture and agricultural resources.....	74	3
Education and research.....	36	1
Other.....	24	0.4
All activities.....	\$1,817	\$89

Source: U. S. Bureau of the Budget.

to approximately 5 percent of such payments to all the states. Moreover, the \$89 million represented almost 15 percent of total Illinois state outlays in fiscal 1949.

Obviously, the magnitude of Federal grants is such that they are bound to have a significant influence on state and local finance. Nevertheless, formulas used by the Federal government for the distribution of grants

GROWTH OF FEDERAL GRANTS



Source: U. S. Bureau of the Budget.

have not been designed to aid in the stabilization of our economy over the business cycle.

Need for Fiscal Cooperation

If grants are to be an effective contracyclical weapon, they should help to change the pattern of state and local finance where this would be in the interest of stability and economic efficiency. States and localities perform some of the most important governmental functions in the United States. The need for highway construction, education, police work, and fire prevention, for example, does not change with the level of prosperity. And yet state and local governments have had to reduce expenditures for these vital activities during depressions because of decreased revenues. Inefficiency in the allocation of the nation's resources results if established local expenditure programs are cut at the same time that the Federal government is reaching out for new activities in order to prime the pump.

On the revenue side, states and localities have been forced to raise tax rates and to introduce oppressive types of taxes during periods of low economic activity in order to more nearly balance their budgets. In Illinois, for example, the sales tax was introduced in the middle of a depression.

During booms, on the other hand, there is a tendency for states and local governments to expand spending programs, thereby adding to the inflationary fuel. This characteristic pattern of state-local finance has contributed to the trend toward more centralization resulting largely from the greater fiscal strength of the Federal government. If Federal grant programs could be so altered that state-local spending and taxing would be more independent of variations in business conditions, there would unquestionably be some increase in central power but this increase would be much less than if the Federal government should continue to take over state-local functions that were inadequately performed.

Suggested Changes in Technique

In order for Federal grants to aid in the coordination of Federal-state-local contracyclical policy, a number of changes in existing grant techniques will have to be made. For example, in allocation formulas the "need" of a gov-

ernmental unit for a certain aided service is often measured by factors that are rather insensitive to changes in economic activity. Population and road mileage are good examples of such factors. The fiscal need of a unit of government at a given time relative to the need during periods of high income and employment has been ignored. In order to assure local effort, dollar-for-dollar matching of Federal funds by the local unit is usually required. This obviously calls for greater effort on the part of states and localities during depressions and less effort during booms. Since grants are often given for narrowly defined special purposes, unaided functions tend to suffer particularly during bad times when the aid-receiving units are inclined to channel their limited funds to those favored activities which bring in Federal money. As a result, unfortunate distortions have occurred in state-local expenditure patterns. Unaided poor relief, for example, may be neglected in order to have funds for old age pensions, which are Federally subsidized.

In view of these and other defects, the following recommendations for grant reform seem to deserve attention. Federal grant appropriations should be varied contracyclically, and state-local matching appropriations should be increased during booms and decreased during depressions, in line with some index of the level of economic activity. Federally aided functions should be more broadly defined so that public assistance grants, for instance, would be available not only for the aged, the blind, and dependent children but for the poor in general. It might also be well for Congress to consider the introduction of some controls over the method by which state and local governments finance the matching requirements under existing grant programs. States and localities should be free in their choice of financing techniques most of the time, but in periods of marked depression or boom they should be prevented from matching funds in a deflationary or an inflationary manner, respectively.

Finally, Congress should investigate the possibilities of a contracyclically adjusted block grant which would guarantee state and local governments fairly stable total revenues even though their tax revenues were allowed to fluctuate freely. This would result in Federal grants serving not merely as expenditure stimulants but also as subsidies for state-local tax reduction at fiscally appropriate periods.

Size of the Military Program

(Continued from page 2)

The briefest answer to these questions would be that some inflation and some use of direct controls are both probable.

There is no reason to believe that the things which have to be done to effectuate the military program can be done without the use of controls over key materials and industries. Priorities have already been given to military procurement and will increasingly displace civilian production. Present lack of clearly defined policy as to allocation of non-priority supplies will create interferences and imbalances that will curtail civilian production even more than necessary. Pressures arising in these circumstances will force still further use of controls, so that there will be a movement toward complete allocations of scarce materials. Cutbacks in production of civilian goods made from such materials will inevitably be much larger than would be suggested by the size of direct military procurement.

Considered in the aggregate, the program is large enough to prevent deflation, though "shortages unemployment" will hit many communities whose industries can neither get materials nor convert to war work. On the other hand, the program is not so large as to produce unrestrained inflation; the balance of forces pushing toward higher price levels promises to remain relatively limited for several months at least. This fact, combined with fairly general agreement that over-all price and wage controls should be avoided, suggests that a moderate rate of price advance might be allowed to persist well into the coming year.

Indirect controls in the form of credit restrictions and higher taxation seem unlikely to curtail demand for a wide range of durable goods sufficiently to match the curtailments effected through military priorities. The durable goods sector of the economy thus appears to be the area in which the forces of inflation will concentrate. It represents the critical center from which selective controls will tend to spread and become general as the military program approaches its peak.

V.L.B.

LOCAL ILLINOIS DEVELOPMENTS

New highs for the year were registered in many sectors of the State's economy in August as business generally continued to expand. Electric power production, at 1.7 billion kwh., was the highest August figure on record and even exceeded the winter high of last January. Coal production reached 5.1 million tons for the first time since January, 1949.

Retail Sales

August retail sales in the State approximated \$800 million, up 17 percent from August, 1949, an increase comparable with that for the nation. It now appears likely that retail sales in the State will reach \$9 billion for the year, topping the 1948 high of \$8.8 billion. The trend is portrayed in the accompanying chart.

A study of Illinois retail sales for the period 1940-50 shows some changes in the percentage distribution of sales among the major kinds of stores. Eating and drinking establishments, food stores, and the automotive group, respectively, gained in proportion of total sales. The food stores and the automotive group continued to gain in the first six months of 1950. (See chart.)

Defense Production

International Harvester Company is reported to be the first firm in the Chicago area to announce construction of a new plant for military requirements. It will erect a plant at its Melrose Park Works, and will employ

1,500 new workers in the production of armored vehicles.

An important development for the Chicago area was the contract given by the Air Force to Ford Motor Company to manufacture B-36 aircraft engines. The Ford Company will use the former Tucker plant. The company estimates that it will take 6 to 12 months to get the production line in operation and that 25,000-30,000 persons will be employed. The Borg-Warner Corporation plans to manufacture aircraft-engine fuel pumps at its Decatur plant.

Construction

Construction contracts awarded during August reached \$111 million, topping all previous highs except the wartime peak of \$143 million in September, 1942. Contracts awarded the first eight months of this year approximately doubled those in the same period last year, with residential building showing the greatest gain.

Indication of a decline in home building in the Chicago metropolitan area was reversed by an upturn in August when 4,790 new single-family and apartment units were started, an increase over July's total of 4,520. The July decline had been counter to the general boom in home building. The extent of the expansion in the area is shown by comparison with 1949 figures. In the first 8 months of this year, a total of 30,670 units were started, an increase of 83 percent over the 16,783 units started in the same period last year.

Planned investments in plant facilities in the Chicago industrial area in September were reported as \$22 million. This was a 52 percent gain over the September, 1949, figure but considerably below the \$62 million reported for August.

The State Highway Department recently reported bids received of approximately one-half million dollars for road improvement projects in nine Illinois counties, and the State Division of Architecture and Engineering reported bids received in September in the amount of \$2.6 million for new buildings and additions at Southern Illinois University and the Manteno State Hospital.

Prices

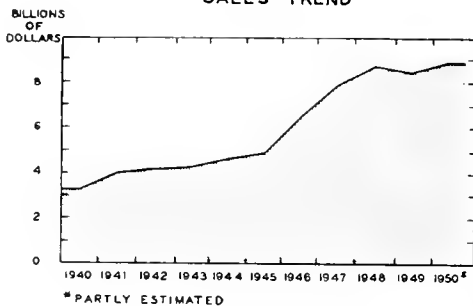
The Chicago consumers' price index moved up 0.6 percent from mid-July to mid-August to attain its highest level, 180.2 percent of the 1935-39 average. The previous high was 179.4, reported in September, 1948. Price rises were recorded in all major groups of commodities and services.

In September, Illinois farm prices rose to their highest level since October, 1948. The index of prices received by Illinois farmers was 275 in mid-September (1910-14 = 100), up one percent from August. As the U.S. index of prices paid by farmers increased only one point, the parity ratio rose from 105 in mid-August to 106 for mid-September.

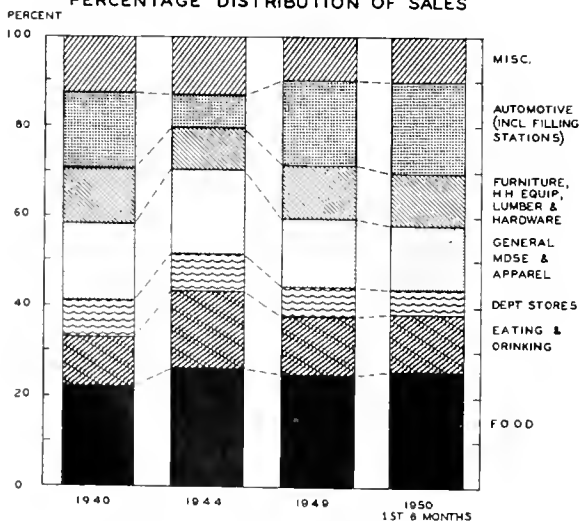
Bi-State Development Agency

A resolution authorizing Illinois and Missouri to establish a bi-state agency and create a bi-state metropolitan district for the St. Louis area was recently signed by the President. The bi-state agency, which will have power to plan, build, and operate airports, bridges, tunnels, and other facilities, has already started surveys intended to solve traffic, sanitation, and other problems of the St. Louis metropolitan area.

ILLINOIS RETAIL SALES
SALES TREND



PERCENTAGE DISTRIBUTION OF SALES



Source: Illinois Department of Revenue.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

August, 1950

	Building Permits ¹ (000)	Electric Power Consumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Department Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS	\$41,112 ^a	778,914 ^a	\$467,946 ^a		\$9,957 ^a	\$10,423 ^a
Percentage Change from.....	{ July, 1950... +5.8 Aug., 1949... +76.6	{ July, 1950... +4.0 Aug., 1949... +8.2	{ July, 1950... -4.3 Aug., 1949... n.a.	{ July, 1950... +11.1 Aug., 1949... +18.5	{ July, 1950... +11.6 Aug., 1949... +22.5	{ July, 1950... +15.7 Aug., 1949... +5.9
NORTHERN ILLINOIS						
Chicago	\$30,382	618,157	\$338,554		\$9,030	\$9,138
Percentage Change from.....	{ July, 1950... +6.1 Aug., 1949... +74.2	{ July, 1950... +4.0 Aug., 1949... +7.1	{ July, 1950... -5.8 Aug., 1949... n.a.	{ July, 1950... +13.2 Aug., 1949... +18.3	{ July, 1950... +12.1 Aug., 1949... +22.3	{ July, 1950... +16.4 Aug., 1949... +5.4
Aurora	\$ 491	n.a.	\$6,584		\$ 39	\$ 80
Percentage Change from.....	{ July, 1950... -34.4 Aug., 1949... +33.8	{ July, 1950... n.a. Aug., 1949... n.a.	{ July, 1950... +0.8 Aug., 1949... n.a.	{ July, 1950... +1.4 Aug., 1949... +24.7	{ July, 1950... +2.3 Aug., 1949... +23.7	{ July, 1950... +23.6 Aug., 1949... +20.8
Elgin	\$1,263	n.a.	\$4,866		\$ 25	\$ 74
Percentage Change from.....	{ July, 1950... +253.8 Aug., 1949... +894.5	{ July, 1950... n.a. Aug., 1949... n.a.	{ July, 1950... -5.1 Aug., 1949... n.a.	{ July, 1950... +21.7 Aug., 1949... +22.6	{ July, 1950... +4.6 Aug., 1949... +16.9	{ July, 1950... +48.3 Aug., 1949... +32.0
Joliet	\$ 334	n.a.	\$8,560		\$ 43	\$ 49
Percentage Change from.....	{ July, 1950... -21.8 Aug., 1949... +34.1	{ July, 1950... n.a. Aug., 1949... n.a.	{ July, 1950... -2.7 Aug., 1949... n.a.	{ July, 1950... -1.6 Aug., 1949... +19.7	{ July, 1950... +4.0 Aug., 1949... +20.5	{ July, 1950... -20.5 Aug., 1949... -20.2
Kankakee	\$ 100	n.a.	\$4,532		n.a.	\$ 29
Percentage Change from.....	{ July, 1950... -22.5 Aug., 1949... -28.1	{ July, 1950... n.a. Aug., 1949... n.a.	{ July, 1950... -5.0 Aug., 1949... n.a.	{ July, 1950... -10.6 Aug., 1949... +10.3	{ July, 1950... n.a. Aug., 1949... n.a.	{ July, 1950... +16.0 Aug., 1949... +8.6
Rock Island-Moline	\$1,028	14,810	\$8,957		\$ 31 ^b	\$ 131
Percentage Change from.....	{ July, 1950... -30.9 Aug., 1949... +62.1	{ July, 1950... +1.6 Aug., 1949... -3.3	{ July, 1950... -5.5 Aug., 1949... n.a.	{ July, 1950... n.a. Aug., 1949... n.a.	{ July, 1950... -2.7 Aug., 1949... +23.0	{ July, 1950... +34.5 Aug., 1949... -0.2
Rockford	\$ 976	22,687	\$14,021		\$ 108	\$ 136
Percentage Change from.....	{ July, 1950... -5.5 Aug., 1949... +77.5	{ July, 1950... +13.0 Aug., 1949... +23.2	{ July, 1950... -5.5 Aug., 1949... n.a.	{ July, 1950... +8.5 Aug., 1949... +15.1	{ July, 1950... +7.1 Aug., 1949... +31.5	{ July, 1950... +9.7 Aug., 1949... +10.3
CENTRAL ILLINOIS						
Bloomington	\$ 91	4,652	\$5,213		\$ 45	\$ 71
Percentage Change from.....	{ July, 1950... -74.7 Aug., 1949... +28.2	{ July, 1950... +5.1 Aug., 1949... +14.6	{ July, 1950... +1.9 Aug., 1949... n.a.	{ July, 1950... n.a. Aug., 1949... n.a.	{ July, 1950... +8.6 Aug., 1949... +25.1	{ July, 1950... +13.9 Aug., 1949... +3.2
Champaign-Urbana	\$ 779	6,211	\$6,822		\$ 47	\$ 60
Percentage Change from.....	{ July, 1950... -22.1 Aug., 1949... -34.9	{ July, 1950... -4.1 Aug., 1949... +13.9	{ July, 1950... -3.4 Aug., 1949... n.a.	{ July, 1950... n.a. Aug., 1949... n.a.	{ July, 1950... +10.4 Aug., 1949... +36.5	{ July, 1950... +19.2 Aug., 1949... +5.1
Danville	\$ 264	7,278	\$5,686		\$ 38	\$ 47
Percentage Change from.....	{ July, 1950... -14.8 Aug., 1949... +261.6	{ July, 1950... +14.0 Aug., 1949... +15.7	{ July, 1950... +5.9 Aug., 1949... n.a.	{ July, 1950... +6.6 Aug., 1949... +25.6	{ July, 1950... +0.6 Aug., 1949... +21.7	{ July, 1950... +6.7 Aug., 1949... +1.0
Decatur	\$1,737	16,875	\$8,981		\$ 80	\$ 75
Percentage Change from.....	{ July, 1950... +64.6 Aug., 1949... +451.4	{ July, 1950... +18.7 Aug., 1949... +29.6	{ July, 1950... +2.5 Aug., 1949... n.a.	{ July, 1950... -3.9 Aug., 1949... +13.9	{ July, 1950... +14.9 Aug., 1949... +15.4	{ July, 1950... +6.9 Aug., 1949... +16.0
Galesburg	\$ 391	4,818	\$3,878		n.a.	\$ 25
Percentage Change from.....	{ July, 1950... +167.8 Aug., 1949... +104.7	{ July, 1950... +5.5 Aug., 1949... +12.5	{ July, 1950... -1.7 Aug., 1949... n.a.	{ July, 1950... n.a. Aug., 1949... n.a.	{ July, 1950... n.a. Aug., 1949... n.a.	{ July, 1950... -6.0 Aug., 1949... +4.1
Peoria	\$1,862	38,500 ^c	\$16,577		\$ 207	\$ 165
Percentage Change from.....	{ July, 1950... +161.2 Aug., 1949... +169.1	{ July, 1950... -7.5 Aug., 1949... +15.8	{ July, 1950... +1.7 Aug., 1949... n.a.	{ July, 1950... +7.8 Aug., 1949... +19.7	{ July, 1950... +10.2 Aug., 1949... +39.5	{ July, 1950... +2.4 Aug., 1949... +21.1
Quincy	\$ 193	n.a.	\$4,788		\$ 32	\$ 72
Percentage Change from.....	{ July, 1950... -37.5 Aug., 1949... -17.9	{ July, 1950... n.a. Aug., 1949... n.a.	{ July, 1950... +0.3 Aug., 1949... n.a.	{ July, 1950... +11.0 Aug., 1949... +20.0	{ July, 1950... +6.3 Aug., 1949... +19.7	{ July, 1950... +32.7 Aug., 1949... +18.3
Springfield	\$ 318	20,250 ^c	\$12,980		\$ 79	\$ 171
Percentage Change from.....	{ July, 1950... -55.5 Aug., 1949... -9.1	{ July, 1950... +6.1 Aug., 1949... +7.8	{ July, 1950... +8.4 Aug., 1949... n.a.	{ July, 1950... -13.3 Aug., 1949... +21.6	{ July, 1950... +3.2 Aug., 1949... +21.7	{ July, 1950... +4.3 Aug., 1949... +9.7
SOUTHERN ILLINOIS						
East St. Louis	\$ 298	9,569	\$8,555		\$ 127	\$ 46
Percentage Change from.....	{ July, 1950... -71.0 Aug., 1949... -20.2	{ July, 1950... +1.0 Aug., 1949... -2.4	{ July, 1950... +4.9 Aug., 1949... n.a.	{ July, 1950... n.a. Aug., 1949... n.a.	{ July, 1950... +9.9 Aug., 1949... +12.3	{ July, 1950... -18.4 Aug., 1949... +15.5
Alton	\$ 394	10,791	\$4,431		\$ 26	\$ 21
Percentage Change from.....	{ July, 1950... +154.2 Aug., 1949... +171.7	{ July, 1950... +13.0 Aug., 1949... +11.4	{ July, 1950... +1.3 Aug., 1949... n.a.	{ July, 1950... n.a. Aug., 1949... n.a.	{ July, 1950... +3.5 Aug., 1949... +15.4	{ July, 1950... -7.6 Aug., 1949... -5.0
Belleville	\$ 211	4,318	\$3,962		n.a.	\$ 33
Percentage Change from.....	{ July, 1950... -4.1 Aug., 1949... +157.3	{ July, 1950... -1.2 Aug., 1949... +6.6	{ July, 1950... +4.8 Aug., 1949... n.a.	{ July, 1950... n.a. Aug., 1949... n.a.	{ July, 1950... n.a. Aug., 1949... n.a.	{ July, 1950... +10.5 Aug., 1949... +29.8

Sources: ¹U. S. Bureau of Labor Statistics. Data include Federal construction projects. ²Local power companies. ³Illinois Department of Revenue. Data are for July, 1950, the most recent available. Comparisons relate to June, 1950. ⁴Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵Local post office reports.

^a Total for cities listed.

^b Moline only.

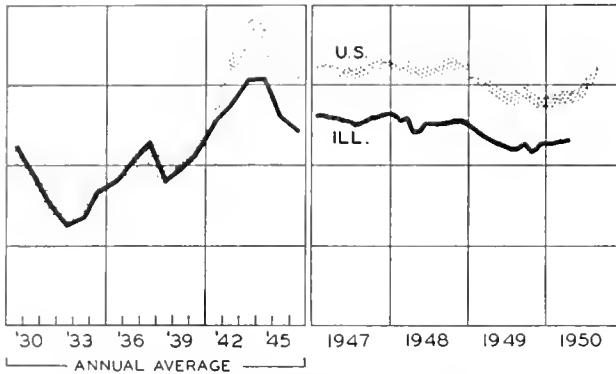
^c Includes immediately surrounding territory.

n.a. Not available.

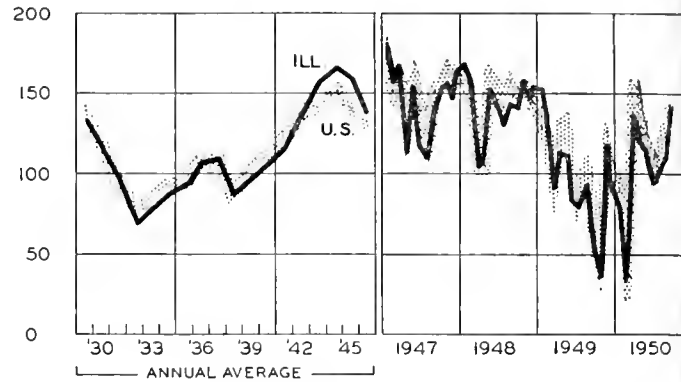
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

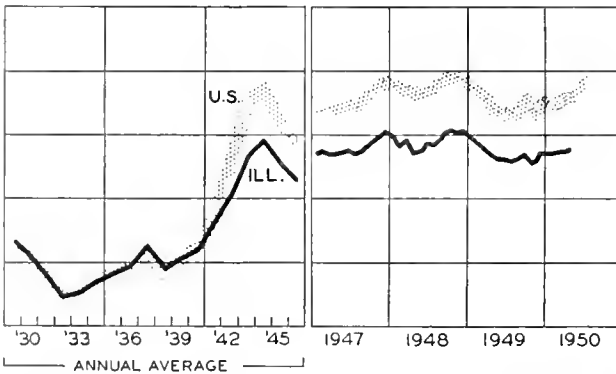
EMPLOYMENT - MANUFACTURING



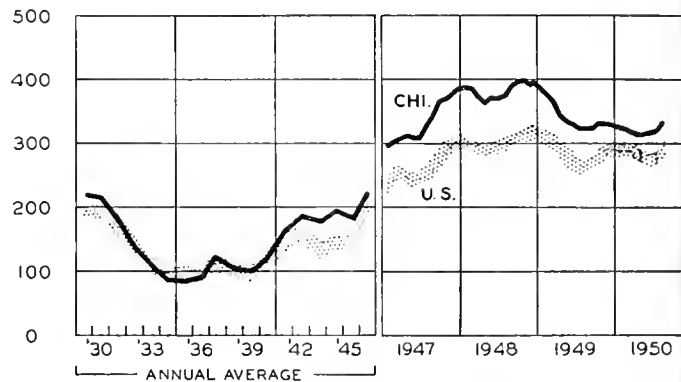
COAL PRODUCTION



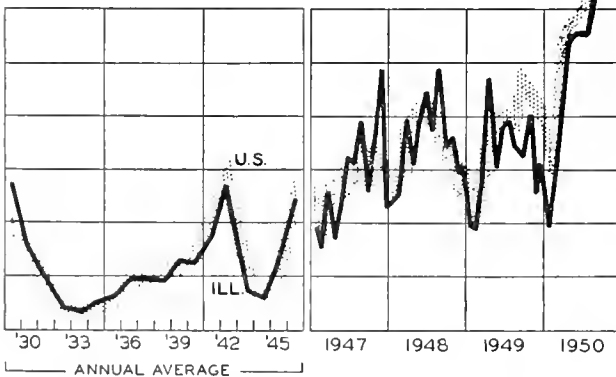
PAYROLLS - MANUFACTURING



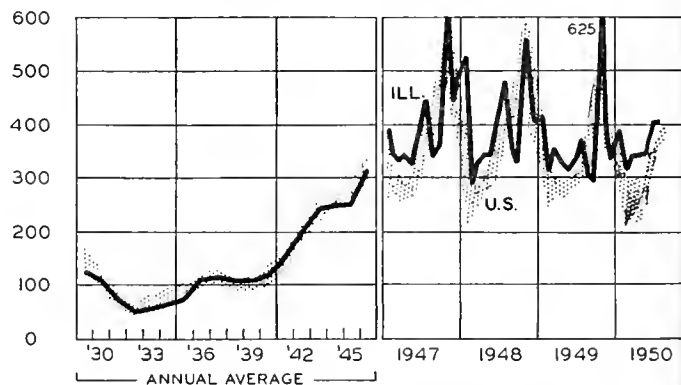
BUSINESS LOANS



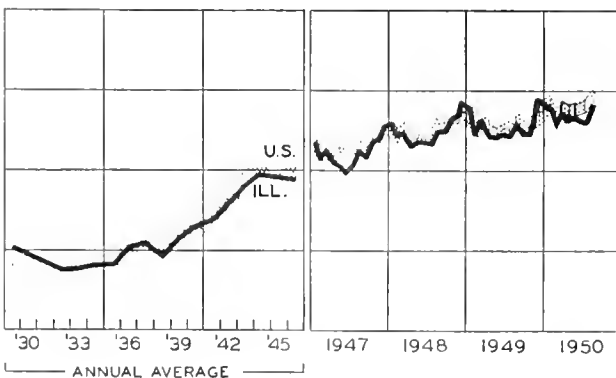
CONSTRUCTION CONTRACTS AWARDED



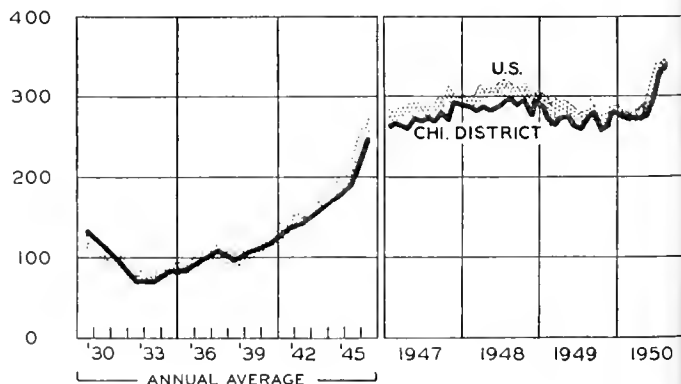
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME VII

NOVEMBER, 1950

NUMBER 11

HIGHLIGHTS OF BUSINESS IN OCTOBER

A new postwar high in industrial production appears to have been attained in October. Expanded output of steel, of producers' durable goods, and of military equipment is expected to raise the Federal Reserve Board index of industrial production slightly above the previous high of 211 in September. With such key raw material industries as iron and steel, copper, zinc, paper, cement, and various industrial chemicals operating at or over capacity, raw material bottlenecks are likely to be a serious deterrent to further expansion of industrial output in the near future. Such expansion would clearly be desirable in view of the fact that the full impact of military orders on the economy has not yet been felt and that unfilled orders have been rising steadily despite the record levels of production (Chart, p. 6).

Production Controls Taking Effect

Government controls over production are rapidly taking shape. These controls are of two general types: military priorities, which channel raw materials into rated defense (DO) orders; and special allocations to essential civilian activities, such as the construction of freight cars. In the case of steel, 15 percent of production has been reserved for DO orders plus another 310,000 tons per month for freight cars. This means, of course, cutbacks in civilian production. Ford has already announced a sharp reduction in automobile production because of inability to obtain sufficient steel, and other auto manufacturers are likely to follow suit.

Unemployment Down Sharply

Only three people out of every 100 members of the civilian labor force were out of work in October. Favorable farming weather plus draft calls reduced the ranks of the unemployed by 400,000 to 1.9 million, a two-year low. The unemployment figure would have been even smaller were it not for the entrance of about 140,000 persons, mostly women, into the labor force. Although a shrinking number of unemployed is ordinarily a sign of a prosperous economy, in the current situation it also indicates that the demands of the defense effort are rapidly depleting this source of manpower reserve.

Total civilian employment rose by over half a million to 61.8 million, the entire increase being the result of a 700,000 jump in the number of farm workers. Nonfarm employment declined slightly to 53.3 million.

The Construction Boom

During the first ten months of this year the value of new construction, at \$22.8 billion, exceeded construction activity in the same period of 1949 by 22 percent. Although construction activity experienced a seasonal decline in October, the construction boom is still very much alive, as is evidenced by the fact that construction activity this October exceeded the high October, 1949, level by 24 percent, and in the case of private residential construction by 46 percent. Some indication of the magnitude of the housing boom is provided by the fact that 1.1 million nonfarm houses were started in the first 9 months of 1950, more such homes than were started in the entire year of 1949.

Construction activity in October was down 4 percent from the September level. A reduction in the amount of private home building was the principal cause of the drop, though highway and farm construction were also down noticeably. These declines more than offset an 8 percent increase in private nonresidential building. The October construction figures mainly represent work started during earlier months, and therefore reflect only to a limited extent the effect of recent government actions on the construction industry.

Farm Outlook Bright

The average American farmer can expect only a slight decline in his gross income in 1950 and a substantial increase in 1951, according to the latest estimates of the U. S. Department of Agriculture. The upward trend in farm income that began in mid-1950 is expected to continue in 1951 and raise gross farm income in that year by 10 percent or more above the estimated 1950 level of \$31.8 billion; this would exceed the record highs of 1947 and 1948.

Net farm income is expected to rise in 1951 even more than gross farm income. The farmers' net this year is estimated at \$13.3 billion, about 6 percent below the corresponding 1949 figure, though it probably will not reach the 1947 or 1948 highs. Mainly responsible for the decline is a 3 percent rise in farm production expenses due to increases in the cost of purchased feed and livestock, interest and depreciation charges, taxes, and motor-vehicle operation costs. The percentage increase in total expenses next year is expected not to be much more than half as large as the increase in cash receipts.

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Stock Market Appraisal

Stock market action continues subject to brief, violent reversals as fears gain dominance or are relieved by the news reports of the day. This is perhaps characteristic of speculative sentiment in periods of disturbance and uncertainty; but it seems aggravated in recent years by the overexcited overemphasis given minor or even inconsequential events by radio newscasts and commentators. To gain the stable perspective necessary for sound judgment in speculative or investment operations, it is necessary to consider the basic factors that will persist through the transitory ups and downs of market sentiment.

War Dominates Business Outlook

The international situation produces reassurance as well as uncertainty, because the increase in military expenditures rules out recession. Even on a conservative appraisal, the military program will be large enough to more than offset any decline in private spending during the next year; and clearly, it is not just a one-year effort, but will carry into the indefinite future.

It is this latter aspect that has provided the extraordinary stimulus to business which brought on the first flush of inflation. Everyone seeks to protect against future shortages and to anticipate future needs. Stockpiling is pursued by private business and individuals as well as by government; and industry is not only putting its facilities in the best of shape for future operation, but is expanding them as rapidly as possible.

In an economy being expanded and organized for war, requirements for new plant and equipment are overwhelming. Illustrative of the drive for quick expansion of capacity is the railroad car building program, which has called forth the first use of controls to allocate steel for nonmilitary purposes. A large program for steel expansion has also been announced, and the industry is under pressure for still further increases. The aluminum industry, too, must expand, and this in turn will require expansion of capacity to generate electric power.

All such expansion will be done under certificates of necessity, which permit the amortization of costs over a five-year period. This adds the incentive of writing off new capacity in a period of large and heavily-taxed corporate profits. It seems almost inevitable that direct military procurement will be overshadowed by indirect

military and essential civilian requirements in this period as in World War II.

Nor will these developments be confined to the war industries. Announced expansion plans in the food, chemical, and some other industries are the largest on record. A continuing basis for expansion of civilian industries lies in the increase in income that is now taking place. More workers are being employed, longer hours are being worked, and higher wages are being paid. These and other increases in income will make for the usual stepping-up of consumer purchases. But material shortages and controls will restrict expenditures for durable goods, so that we may again see, as in the war years, both a sharp increase in personal savings and an abnormal expansion of expenditures for nondurable goods. The stimulus of war expansion is bound to be felt in many industries besides those specifically engaged in war production.

Psychological Factors in the Market

The broad advance in the stock market since the middle of last year reflects, in large degree, the removal of "recession" fears. The assurance of future earnings is, in effect, an assurance of future security values. But how high prices should be in relation to earnings is something the market insists on deciding for itself.

At this time, it continues to capitalize record earnings at an extremely low rate, in keeping with the pattern of the last four years. Just two years ago, in an article entitled "That Stock Market Barometer — Exploded," we pointed out some of the influences responsible for this market situation. Out-and-out speculation has still to put in an appearance. Buying to date has been largely for cash, with little increase in brokers' loans. Yet, there are definite signs that the freeze on speculative psychology is relaxing its grip. The shift from avoidance of the market to participation has begun, and it will probably continue.

Although the market has made new postwar highs in recent months, price-earnings ratios have been kept low by the sharp upsurge in corporate profits. Preliminary reports show that profits in the third quarter of 1950 were more than 50 percent higher than in the same quarter of 1949. Perhaps, as taxes cut deeper into profits, the disparity between earning power and prices will not seem so large, but even then higher prices will be justified.

War scares, too, have lost much of their power to depress the market. War is still feared, but there has been a hardening of public attitude that changes reactions to it. What has been developed and may be observed, for example, in the election returns, is a blind desire to strike out at anything and everything communistic. New war incidents, like the Chinese intervention in Korea, aggravate this crusading spirit, and thus tend to produce a state of excitement rather than of depression. Fear may still produce the immediate reactions. It is not so likely to prevent the subsequent advances.

The Bogey of Historical Highs

As the market hesitates near the highs, a new fear gains in effectiveness. It is the fear that the market has become vulnerable because prices are the highest in two decades. This notion that the peaks of the past provide a sound basis for judging the present is a bogey whose influence cannot be entirely discounted. It dwells in imaginations tied down by preoccupation with the lines on a chart. Lacking vision beyond these confines, such imagination fails to perceive the essential differences that justify striking out into new territory.

(Continued on page 6)

BAKING: A LEADING AMERICAN INDUSTRY

The world's first bread was made by Stone Age men about 240,000 years ago. From primitive times, baking was essentially a household task, although small bake shops soon appeared when towns developed. Throughout history, the baker has been a highly respected individual. In ancient Greece he was eligible for the coveted position of senator, and in medieval Germany the murderer of a baker was fined three times as much as the murderer of an ordinary man.

In the past fifty years, baking has come out of the kitchen and has evolved into a full-fledged industrial operation. Today large bakeries look like modern manufacturing plants, with automatic conveyors, heavy machinery for mixing, weighing, and wrapping, and huge ovens baking up to 4,000 loaves of bread an hour.

The baking industry is one of the American farmer's biggest industrial customers, annually buying close to \$1 billion worth of farm products. Flour is the major ingredient purchased by bakers specializing in the production of bread, which provides half of the industry's total sales. The nation's bakeries utilize about 10 billion pounds of flour annually, turning out 40 million loaves of bread a day. In the manufacture of cakes, which is gaining increasing importance in the industry, shortening, sugar, and eggs are major cost items.

Part of the scientific process of baking is constant research and improvement of products. The industry began adding the nutritional factors found in whole wheat to white bread shortly before the war, and the process was made a compulsory wartime measure in 1943. Today over 90 percent of all bakers' white bread is enriched, and a pound can supply 40 percent of an individual's daily food requirements.

A Three Billion Dollar Industry

The baking industry in America was very small in the days when deliveries had to be made on foot or by wagon and most housewives baked their own bread. It has multiplied its sales 12 times within the past half century, since the automobile and good hard roads appeared and mechanical devices and greater freedom encouraged women to spend less time in the kitchen.

Today bakeries have a product value second only to meat packing among the food-processing industries, with sales well up among the first ten manufacturing industries in the nation. Although there were one-third fewer bakeries in operation in 1947 than in 1939, sales of the 6,800 wholesale and retail multi-outlet bakeries listed in the recent Census of Manufactures were over \$2.4 billion, $2\frac{1}{4}$ times the 1939 value. When the \$540-million product value of the biscuit, cracker, and pretzel industry and the approximate sales of the nation's 11,000 single-store retail bakers are added, sales of the baking industry as a whole totaled over \$3 billion.

There are three major groups of baking companies: large firms that operate on a wholesale basis; retailers who bake and sell on their own premises; and retail

multi-outlet bakeries, including grocery chains, which have a centralized baking plant for their stores.

The trend to the super-market type of grocery merchandising gave impetus between 1929 and 1947 to a nearly 700-percent increase in the dollar volume of bakery products sold through grocery stores. Grocery chain bakeries usually mass produce a limited number of items and resemble typical wholesale units. A similar operation with a greater variety of products is multi-outlet retailing, with a central plant that supplies a number of stores or house-to-house delivery truck routes.

Wholesale bakeries accounted for over half of the sales in the bakery industry in 1947. They are usually large concerns and may be single-plant independents or combination companies with centralized buying for many plants throughout the country.

The many neighborhood single-outlet bake shops specialize in handmade products such as decorated cakes and Danish pastry. They were not, however, included in the Census of Manufactures and their operations will appear in the retail trade division of the Census of Business.

Illinois a Leader in Bakery Production

The 1947 Census of Manufactures lists 1,502 Illinois establishments in the bakery industry, 1,118 of them small retail bakers. These single-outlet retailers employed only 4,800 of the 20,000 Illinois workers in the industry, a total bakery employment which ranked fourth among the states.

Over half of the remaining 384 firms were wholesalers selling primarily to grocers, a field in which Illinois was fourth in the nation. Illinois bakeries ranked third in sales of wholesalers selling mainly to hotels, restaurants, and institutions, and fifth in product value of retail multi-outlet bakeries.

Illinois led the biscuit, cracker, and pretzel industry with a total product value of \$55 million. The 21 Illinois firms in the industry included such well-known companies as Salerno, Sawyer, Schulze and Burch, Sunshine, and the National Biscuit Company. Nabisco, the largest manufacturer of cookies and crackers in the world, has two plants in Chicago employing 2,000 workers.

A good deal of the 170-percent rise in the sales of the the biscuit and cracker industry between 1939 and 1947 was the result of a remarkable increase in the production of machine-made cookies, whose sales jumped from \$26 million in 1937 to \$298 million in 1947, indicating the success of mass production and promotion in competing with the handmade products.

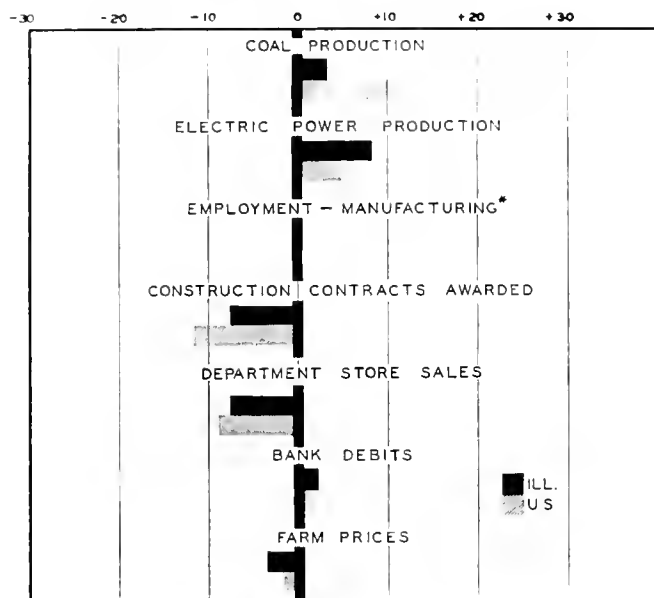
Another field in which Illinois is outstanding is the production of prepared bakery mixes. A comparatively recent development, they gained popularity during the war when ingredients and help were hard to get. The largest bakery mix plant in the flour milling industry is the million-dollar Pillsbury mill at Springfield, which produces 22 types of prepared mixes, including yeast dough, cake, biscuit, muffin, and pie crust preparations for bakeries, hotels, and restaurants throughout the country.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes September, 1950, to October, 1950



* Figure for Illinois not available.

ILLINOIS BUSINESS INDEXES

Items	October 1950 (1935-39 = 100)	Percentage Change from	
		Sept. 1950	October 1949
Electric power ¹	307.4	+8.7	+24.9
Coal production ²	135.4	+3.4	+266.3
Employment—manufacturing ³	n.a.	.....	.....
Payrolls—manufacturing ³	n.a.	.....	.....
Dept. store sales in Chicago ⁴	229.3 ^a	-2.6	+5.6
Consumer prices in Chicago ⁵	180.4	+0.3	+3.4
Construction contracts awarded ⁶	453.6	-7.5	+13.1
Bank debits ⁷	331.9	+2.2	+25.0
Farm prices ⁸	238.7	-3.3	+12.2
Life insurance sales (ordinary) ⁹	201.4	+5.5	+18.5
Petroleum production ¹⁰	245.1	+3.7	-1.3

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Repts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.
^a Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	October 1950	Percentage Change from	
		Sept. 1950	October 1949
Annual rate in billion \$			
Personal income ¹	230.1 ^a	+ 0.6	+13.7
Manufacturing ¹			
Sales.....	254.4 ^a	+ 1.0	+34.2
Inventories.....	31.4 ^{a, b}	+ 2.6	+ 8.7
New construction activity ¹ *			
Private residential.....	14.6	- 7.1	+45.9
Private nonresidential.....	9.2	+ 0.4	+13.9
Total public.....	8.6	- 3.0	+ 6.3
Foreign trade ¹			
Merchandise exports.....	10.8	- 0.7	+ 6.0
Merchandise imports.....	11.1	+ 7.3	+65.4
Excess of exports.....	-0.3	.....	.....
Consumer credit outstanding ²			
Total credit.....	19.4 ^b	+ 0.3	+12.4
Installment credit.....	13.4 ^b	+ 0.3	+31.6
Business loans ³	16.3 ^b	+ 3.8	+19.2
Cash farm income ³	43.2	+28.6	+ 7.3
Indexes (1935-39 = 100)			
Industrial production ²			
Combined index.....	215 ^a	+ 1.4	+29.5
Durable manufactures.....	260 ^a	+ 3.2	+48.6
Nondurable manufactures.....	195 ^a	+ 0.5	+10.2
Minerals.....	167 ^a	+ 2.5	+49.1
Manufacturing employment ⁴			
Production workers.....	163	+ 0.6	+15.2
Factory worker earnings ⁴			
Average hours worked.....	110	+ 1.0	+ 4.3
Average hourly earnings.....	250	+ 1.1	+ 7.5
Average weekly earnings.....	276	+ 2.1	+12.2
Construction contracts awarded ⁵	481	-11.7	+ 7.0
Department store sales ²	292 ^a	- 8.8	+ 5.4
Consumers' price index ⁴	175	+ 0.6	+ 3.7
Wholesale prices ⁴			
All commodities.....	210	- 0.2	+11.1
Farm products.....	234	- 1.4	+11.4
Foods.....	218	- 2.7	+ 8.1
Other.....	199	+ 1.4	+11.4
Farm prices ³			
Received by farmers.....	250	- 1.5	+10.7
Paid by farmers.....	202	+ 0.4	+ 6.8
Parity ratio.....	103 ^c	- 1.0	+ 5.1

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b As of end of month. ^c Based on official indexes, 1910-14 = 100. * Data revised; not comparable with figures in previous issues.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1950					1949
	Nov. 25	Nov. 18	Nov. 11	Nov. 4	Oct. 28	Nov. 26
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,810	1,974	1,831	1,902	1,942	2,458
Electric power by utilities.....mil. of kw-hr.....	6,508	6,728	6,574	6,551	6,563	5,537
Motor vehicles (Wards).....number in thous.....	116.1	118.4	153.7	169.6	179.6	71.9
Petroleum (daily avg.).....thous. bbl.....	5,813	5,809	5,837	5,823	5,823	5,133
Steel.....1935-39 = 100.....	221.9	221.9	222.5	221.2	221.7	161.5
Freight carloadings.....thous. of cars.....	701	837	840	862	888	665
Department store sales.....1935-39 = 100.....	319	368	342	315	313	330
Commodity prices, wholesale:						
All commodities.....1926 = 100.....	171.2	171.0	170.0	169.6	168.9	151.7
Other than farm products and foods.....1926 = 100.....	162.4	162.6	162.2	161.9	160.8	145.0
28 commodities.....August, 1939 = 100.....	343.1	346.6	342.5	336.1	332.2	250.0
Finance:						
Business loans.....mil. of dol.....	16,989	16,919	16,710	16,529	16,322	13,772
Failures, industrial and commercial.....number.....	146	170	135	181	160	148

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Slows

Severe weather was an important factor in limiting industrial activity during November. Steel production was maintained at a level 2 or 3 percent above capacity for most of the month, averaging about 1,980,000 tons weekly, but was cut sharply by the storms that blanketed the eastern United States on Thanksgiving week end; in the following week, output dropped to 82 percent of the rated capacity, or 1,575,000 net tons of ingots and castings. Coal was likewise adversely affected, with tonnage mined in the bituminous industry dropping from an average of 11,400,000 tons to 9,050,000 tons weekly. Automotive production was cut sharply, not by weather but by model change-overs. Between the week ending November 4 and that ending November 25, weekly vehicle output dropped from nearly 170,000 cars and trucks to about 115,000, as most car makers completed the change. In each case, however, production recovered rapidly to high levels.

Important basic materials remain in short supply, despite record levels of production, and are the topic of increasingly urgent plans for expansion. Some of the steel companies have raised their sights considerably in planning expansion of their plants and the big three in aluminum are all projecting new facilities and improved utilization of existing plants.

Labor Situation Eases

The squeeze on the labor force slackened a little in November as farm work tapered off and unemployment rose. Nonagricultural employment rose to 53,721,000, highest November level on record, in spite of some layoffs caused by transition from peace to war production. These layoffs may have contributed to the rise of 300,000 in unemployment, but by and large the changes from October to November are seasonal in nature, reflecting the end of the crop year. One factor to be considered in regard to the labor force is the increasing demands of the armed forces. In November, 1,941,000 persons were in the armed services; mobilization plans call for 3,000,000 by next summer, and perhaps more, depending on developments. It is to be expected, therefore, that more women and older workers will be recruited for the civilian labor force.

Bureau of Census data, in thousands of workers, are as follows:

	November 1950	October 1950	November 1949
Civilian labor force.....	63,512	63,704	62,927
Employment.....	61,271	61,764	59,518
Agricultural.....	7,551	8,491	7,878
Nonagricultural.....	53,721	53,273	51,640
Unemployment.....	2,240	1,940	3,409

Wages and hours continued to rise from mid-September to mid-October for the nation's factory production workers. At an average of 41.4 hours, the work week was up .4 of an hour during the month and was the longest since December, 1945. Increases in hours worked in durable-goods industries were the most important factor in the over-all gain. Longer hours were general throughout durable-goods production plants with the largest advances shown by ordnance and accessories, lumber and wood products, primary metals, electrical machinery, and transportation equipment. Among nondurable products, only the apparel and other finished textile products group showed a notable increase in hours worked. Average hourly earnings rose by nearly 2 cents during the period, in durable-goods manufacture by about 1 cent and in

nondurables by slightly more than 2 cents. Weekly wages, rising from \$60.68 to \$61.98, another new high, reflected both longer hours and higher hourly pay, together with more general payments of overtime rates.

Prices Continue to Rise

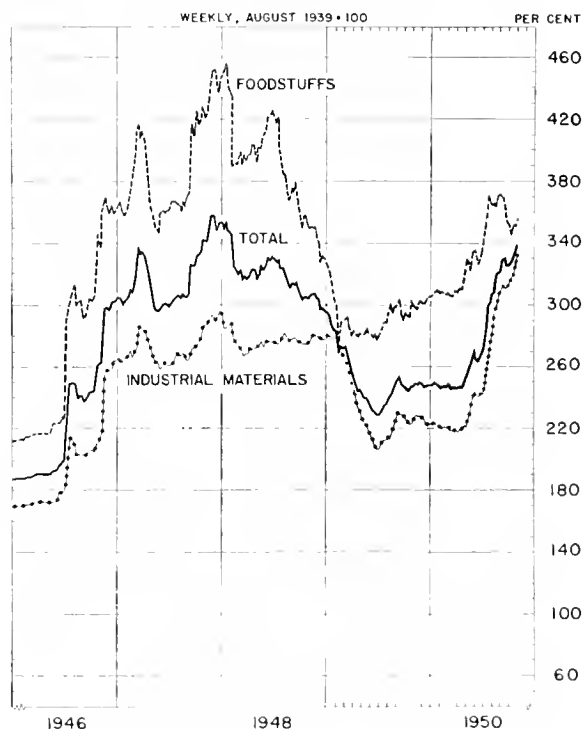
Prices generally rose more rapidly during November. The BLS index of wholesale prices of 28 basic commodities rose 3.4 percent to 346.8 (August, 1939 = 100). Foods, rising steadily during the month to 363.8 were nearly 4 percent higher on November 30 than on November 1. Industrial materials prices were up nearly 3 percent to 337.6. It may be seen from the chart, however, that even the recent substantial rises leave foods and the all-item index below their postwar peaks, and foods very much below their 1948 high point. In contrast, industrial materials, rising since May, are now considerably above the previous peak.

The all-commodities wholesale price index advanced fractionally each week during November to show a total gain of 1.2 percent for the four weeks ending November 28. At 171.7 (1926 = 100), the index had reached a new record high, a little more than 1 percent over the previous postwar peak of 169.8 set in August, 1948.

Consumer prices were up 0.6 percent from September 15 to October 15 to 174.8 (1935-39 = 100), another new high in the price field. The previous record was 174.5, set in August and September, 1948. For once, food prices were the least important factor in the index change, rising only 0.2 percent during the period. Housefurnishings were up 2.3 percent during the period and apparel 1.5 percent.

The Bureau of Labor Statistics, in releasing monthly data, reported that the rent component of the index is

WHOLESALE PRICES: BASIC COMMODITIES



Source: Bureau of Labor Statistics. Reproduced from a Federal Reserve chart.

into effect on September 18 did not have a very severe limiting influence on credit buying; the effectiveness of the later, tighter regulations remains to be seen.

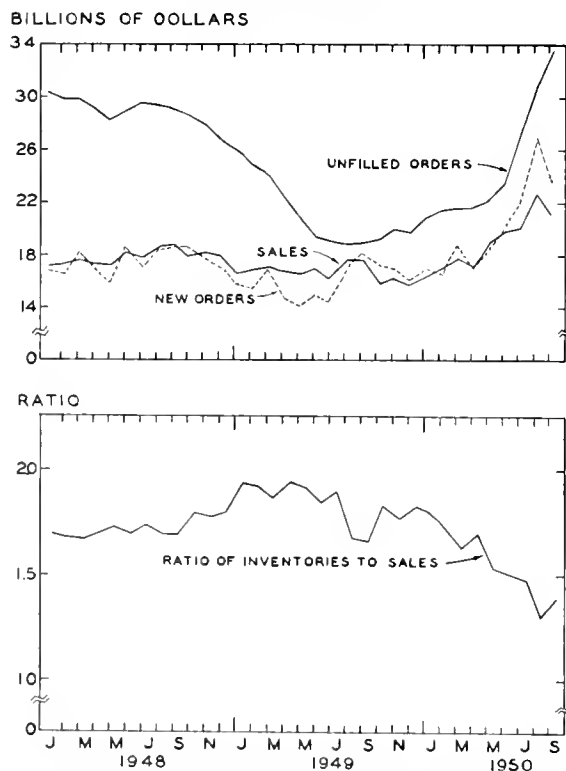
Corporate Profits Show Sharp Upturn

Early estimates made by the Department of Commerce indicate that, in keeping with a substantial boost in industrial production, a new high was set by corporate profits during the second quarter. In contrast to 1949, when profits averaged 20 percent lower than the previous year, the first quarter of 1950 saw a modest rise over 1949 and second quarter profits were up 27 percent over the first quarter. Unadjusted profits before taxes rose from \$7.3 billion in the first quarter to \$9.3 during the second quarter, a rise from \$29.2 billion to \$37.4 billion at seasonally adjusted annual rates. After deduction for taxes at the new rates, profits were up \$1.3 billion from the first quarter to \$5.6 billion, slightly higher than the previous peak set in the third quarter of 1948.

The profits increase was general, with only communications and public utilities showing a small seasonal decline. Transportation profits were roughly doubled from the first to the second quarter; other major groups showed profits advances ranging from 23 to 36 percent after tax deductions. In manufacturing, durables production showed the larger relative gain, rising nearly one-half over the first quarter; nondurable manufacturing profits were up 19 percent.

The rise in corporate profits accounted for about one-half of the increase in national income from the first to the second quarter. A 5-percent advance in national income raised the total to \$229 billion at an annual rate after adjustment for seasonal factors. This is slightly below the postwar high in national income, \$231.4 billion, attained during the fourth quarter of 1948.

MANUFACTURERS' SALES, ORDERS, AND INVENTORIES



BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Escalator Clauses

The October issue of *Management Record* contains a discussion of What 1.14 Means in GM's Escalator Clause. Outlining how General Motors derived the figure 1.14, the article explains its proper use as a relation at a particular point in time between the consumers' price index and the average GM hourly wage rate, as applied to living cost allowance contract clauses. Since the General Motors contract is the prototype of the currently popular cost-of-living schemes, the 1.14 figure has been adopted by other companies whose hourly wage ratios may be very different. These companies may have adopted the GM cost-of-living philosophy but incorrectly applied its formula.

The United States Department of Labor has announced the publication of a bulletin on the Consumers' Price Index of the Bureau of Labor Statistics and its Use in Contract Escalation. It briefly explains the nature of the Index, its availability, and the cities for which it is published. Nine samples of wage escalator clauses quoted from collective bargaining agreements illustrate the use of the Index in the automatic adjustment of wages.

Atomic Attack Survival

The National Security Resources Board has released the first of a series of official civil defense booklets for the general public entitled "Survival Under Atomic Attack." It is their aim to get the booklet into every home in the nation, and it would be to the advantage of every business concern to avert a possible panic during working hours by seeing that its employees are familiar with these emergency measures.

Wage Payments

The Illinois Department of Labor recently published the second in a series of discussions of Illinois labor laws, entitled *Illinois Wage Payment Legislation*. Prepared by the University of Illinois Institute of Labor and Industrial Relations, the bulletin is in a question-and-answer form and summarizes seven of the major Illinois laws dealing with payment of wages. It includes laws on time of payment, holding back wages, and paying prevailing wage rates to workers on public projects.

Safety Devices

The harmful effects of sudden blast-type noises are eliminated by a new ear valve sonic filter that leaves the ear canal open for normal voice level sounds. Made by the Sigma Sales Corporation, Los Angeles, it requires no adjustment and has no wires or batteries like those in an ordinary hearing aid. It is expected to find ready use at pistol ranges, skeet and rifle clubs, mills, factories, and shipyards, and wherever general industrial noises occur.

The American Optical Company at Southbridge, Massachusetts, has developed a series of two-tone fused lenses which simultaneously admit and cut out light of different colors to protect industrial workers exposed to

intense glare. The bicolored lenses are made by fusing two half circles of glass into a one-piece lens, each half possessing different light-selecting properties. One type has been especially designed for use by operators of open-hearth furnaces and another for screening out the dangerous glare and radiations that accompany welding.

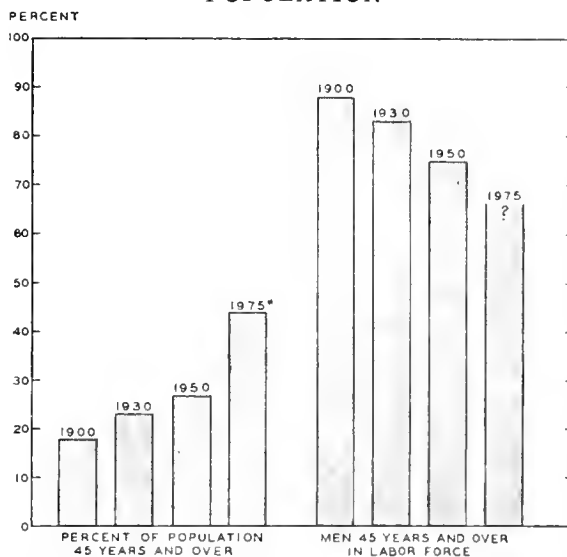
Tungsten Welding Electrodes

The development of pure tungsten electrodes suitable for atomic-hydrogen and gas-shielded electric arc welding of a wide range of metals has been announced by the Tungsten and Chemical Division of Sylvania Electric Products, Incorporated, Towanda, Pennsylvania. The new electrodes, which have a melting point of approximately 6000 degrees F., are consumed at an almost imperceptible rate. Their use in welding in an inert gas atmosphere prevents the formation of oxides, nitrides, and other contaminants which tend to reduce the strength of welds and also permits faster welding with less distortion and closer control of quality.

The Labor Force

A recent bulletin of the Institute of Labor and Industrial Relations, published by the University of Illinois, is titled *Who's Too Old To Work?* A study of the difficulties that people over 45 have in finding jobs, the bulletin points out that although our population is growing older, as shown by the chart, fewer jobs go to older people. Personnel policies favor younger workers, in spite of the fact that workers over 45 usually have less absenteeism and fewer accidents. Today more than one-fourth of our population is 45 or over, and it is estimated that within 10 years one-third of the people in the United States will be in this age group. There will be, therefore, an increasing problem of giving those older people who are willing and able to work the opportunity to do so.

THE LABOR FORCE AND OUR AGING POPULATION



Source: Institute of Labor and Industrial Relations, University of Illinois.

* Percent of estimated total.

THE DECISION ON COLOR TELEVISION

WAYNE COY, Chairman
Federal Communications Commission

The years since 1925 have been crowded ones for the electronic sciences. When chaos and congestion in the ether became completely intolerable, Congress set up the Radio Commission. Through boom and bust, radio continued to grow. In the Second World War, the electronic scientist performed such amazing exploits that he rose to a pinnacle of fame and power. The war-born developments loosed a floodtide of peacetime applications. Today we look to the electronic scientist not only as the man of the hour but the man of the future. We look to him to lift our nation to new heights in peace and to guard us in war.

While radio science and the radio industry have been busy with new developments during this quarter of a century, the scope and complexity of their progress have continually confronted the government with new challenges. How a democracy can best utilize its processes of government to realize the maximum public service from our technological developments consistent with the maximum freedom of individual initiative is an increasingly crucial problem. And it will always be a crucial problem in a free society—a problem that demands the utmost patience, goodwill, and vision of all of us.

Rapid Growth of Radio and Television

Twenty-five years ago there were less than 600 radio stations on the air. Today that number has more than tripled—2,100 in operation. An entirely new and highly improved sound broadcasting system—FM—emerged and is represented by 700 stations. Television was a dream in 1925. Today we have more than 100 stations on the air—and would have many more were it not for a freeze on new construction. Instead of 5,000,000 receivers, we have 100,000,000, including 8,000,000 television sets.

Twenty-five years ago radio communication was confined to ships, amateurs, and to a small degree to overseas telegraph. Today you can send a radiotelegram almost any place in the world. Overseas commercial radiotelephone service started in 1927. Today you can talk direct to the subscribers of telephones in 80 other countries. The police, fire departments, public utilities, railroads, truck and bus lines, aircraft, taxicabs, and countless other services are using radio. The Commission has issued 160,000 licenses for 40 classes of radio service.

These services, in the variety and number already existing, preempt the technically-developed portion of the electronic spectrum. Even as long ago as 1945, when the Commission gave the go-ahead signal to black and white television, little space was available in this portion of the spectrum; and to date television has been confined to 12 channels in the VHF band. The still relatively unexplored UHF band was preserved for future experimental work.

Despite this limitation, television started to grow by leaps and bounds. Not even the most optimistic were able to foresee the rapid strides the new industry was able to make. The result was that the 12 VHF channels became hopelessly inadequate to handle the demand that grew up—a demand that the Commission and the industry had believed would take many more years to develop. It was thus imperative to find more channels for television stations. It was not possible to assign any more space in the VHF band, since all VHF space was committed to other

services, both government and non-government. The only place to pick up channels was the UHF band and the Commission in its July, 1949, notice proposed to open up 42 channels in this band for commercial television. This action meant that the last portion of the spectrum where television could operate in the present state of the art was about to be carved up. It was television's last frontier.

Color Television

Thus, if color television were to have any chance of developing in the foreseeable future, it was apparent that this chance had to be given to it before the last spectrum space where it could operate was disposed of.

I am aware that there are some who question the need for color and who sincerely feel that color is a "phony" issue which may cause serious disruption of a young and growing industry. Let me assure you that, in the judgment of the Commission, there is nothing "phony" about the issue. Congress, through the Communications Act, commanded the Commission to "generally encourage the larger and more effective use of radio in the public interest." Certainly, the Commission has encouraged such a development for the past several years. Having reached the point in the development of a television service where the UHF band of frequencies was needed to provide a basis for a nation-wide competitive service, we were at a crossroads with respect to the past encouragement given to the development of color television. We could provide for this important improvement along with black and white in the VHF and UHF or we could provide for black and white service only in both bands. The latter course, however, might foreclose the opportunity for the development of color television in the foreseeable future.

Therefore, it seemed quite clear to us that the groundwork should be laid now for the joint use of both bands—VHF and UHF—for both black and white and color. Hard emphasis is given to this point by the extraordinary rate of development of the monochrome service. If we did not now lay the groundwork for such joint use, it is obvious that when the Commission did get around to adopting a color system we might not be able to choose the best possible color system but would as a practical measure have to consider only such systems as might be compatible with black and white television.

There were three color systems proposed to the Commission—one by Color Television, Inc., one by Radio Corporation of America, and the third by Columbia Broadcasting System. The first two systems are compatible systems; that is, present receivers without making any changes could receive a black and white picture from color transmission of such systems. The CBS system is not compatible. Some changes must be made in existing receivers in order to enable them to receive a black and white picture from CBS color broadcasts.

The Commission carefully analyzed the voluminous record of the hearing. We had to weigh testimony covering almost 10,000 pages of transcript and evidence that was submitted in 265 exhibits. We made detailed and specific findings concerning all three systems—findings approved by all seven members of the Commission. The care with which this work was done can best be indicated by the fact that while, as was to be expected, the partic-

ular result we reached was disappointing to some of the parties, there has been no showing by anyone that the findings are not supported by the evidence in the record.

The Compatible Color Systems

The Commission unanimously found that the CTI and RCA color systems were not suitable for adoption. Without attempting to restate in detail here all the reasons we set forth in our report for arriving at this determination, I shall mention two of the fundamental defects.

In the first place, the Commission found that the quality of the color picture produced by the two systems was not at all satisfactory. In the case of the CTI system there is a serious line crawl or jitter, and in the case of the RCA system there is a prominent dot structure and a marked loss of contrast. Moreover, the colors are not true in either system. This is particularly true of flesh tones. At none of the demonstrations did CTI or RCA correctly reproduce flesh tones. Since the purpose of the hearing was to pick a color television system, it is obvious that no serious consideration could be given to a system that failed to produce true colors.

In the second place, the equipment required for the CTI or the RCA system appears too complex for normal use. This is true both for receivers in the home and studio equipment at the station. At the outset of its conclusions the Commission stated that a color system to be adopted must produce a satisfactory color picture, and must use apparatus that is simple to operate in the home and is cheap enough to be purchased by the great mass of the American people.

At all the demonstrations, CTI and RCA had trained operators at hand who worked assiduously before each demonstration to make sure that the equipment was adjusted in tiptop shape and who hovered over the equipment during each demonstration, continuously making adjustments to insure optimum performance. Despite all these efforts RCA and CTI were unable to maintain accurate registration and color control throughout the demonstrations. You can imagine what the situation would be like in the ordinary home where children or untrained adults had to operate such receivers.

An analysis of the two systems showed to the Commission's satisfaction that the defects were fundamental. The equipment is complex because by the nature of the systems, registration and color controls are extremely critical.

The conclusion appears to be inescapable that CTI and RCA devoted so much of their efforts to the compatibility part of their systems that they never succeeded in producing satisfactory color. The net effect from the adoption of either system would be that the public would continue to receive black and white pictures. For these reasons, there was just no basis upon which the Commission could approve either the CTI or RCA system.

The CBS Color System

The CBS system did not labor under these handicaps. The quality of the color picture was of a high order. A wide variety of subject matter was displayed involving many different colors. Broadcasts were made from studios and from outdoors. In all instances color rendition was of a high quality. The equipment utilized was easy to operate. At not a single demonstration was there any evidence of misregistration or inaccurate color control.

The CBS system does have fewer lines per picture than the present system. However, the addition of color

to the picture more than outweighs the reduction in lines so far as apparent definition is concerned. You only have to look at a scene in color and compare the same scene in black and white to be convinced that the addition of color increases severalfold the amount of information that can be transmitted by a picture.

True, a monochrome picture from color transmissions under CBS standards is not of the same good quality as monochrome pictures from transmissions under present television standards. But neither were the monochrome pictures from the RCA or CTI color transmissions. I regarded such pictures as satisfactory in the case of CBS and RCA and unsatisfactory in the case of CTI.

True, also, the CBS color system has been described as a mechanical system inasmuch as a mechanical disc is used at the receiver to achieve color. However, the Commission pointed out in its report that the CBS system is not limited to the mechanical disc. A projection receiver was shown which did not require a disc. Also, if a direct view tricolor tube is successfully developed, all the experts agreed that it can be utilized on the CBS system.

The most serious of the objections to the CBS system were based on the fact that it is an incompatible system. All the Commissioners agreed that it would be desirable to have a compatible color system if that were possible. However, no successful compatible color system had been demonstrated. Since existing receivers can be adapted to receive black and white pictures from CBS color transmissions at a reasonable price, the Commission felt that it was not fair to deprive 40,000,000 American families of the opportunity to have color simply because the owners of 7,000,000 or 8,000,000 sets might have to spend some money in adapting their present receivers.

The Commission was willing to postpone adopting a final color decision, and, among other matters, give the proponents of a compatible system another opportunity to show that they have a system that can satisfy the Commission's requirements, provided that in the meantime the manufacturers would prevent the compatibility problem from increasing. This could have been done by building television receivers with bracket standards, which would enable reception of a black and white picture from present transmissions or CBS transmissions. The manufacturers were either unwilling or unable to give assurances of such action. The Commission, therefore, adopted the CBS color system. Had we done otherwise, we would have invited the risk that if the compatible systems failed again, it might no longer be possible to adopt a color system we know is satisfactory, because the number of receivers in the hands of the public could have become so large that as a practical matter it would be extremely difficult to adopt an incompatible system.

In closing, I would like to say that the Commission's long hearing on color television, our recent color decision, and the other phases of the allocation problem still before us highlight in striking fashion the nation's dependence on electronic research. We must move ahead now with what we have; but new developments must be given the fullest support that the electronics industry, our school systems, and the government can muster. The field of fundamental research is not embroidery, is not a luxury. It is basic. It is a mighty arsenal of democracy for both war and peace. For the long haul of the future, we cannot rely on improvisation. We must have consistent year-in and year-out programs of fundamental research—programs that will be adequately financed to attract the finest talents in the nation. To do less is to shortchange the future, to frustrate our potentialities.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business in September continued well above last year's level. Total employment in the State increased. However, manufacturing employment was down slightly from August, primarily because of strikes and shortages of materials in the agricultural machinery and nonelectrical machinery industries. Relatively large gains in employment were reported for the Chicago, Danville, Elgin, Joliet, Peoria-Pekin, and Springfield areas. Steel production in the Chicago area was 1,488,600 tons, up 5 percent from August, and second only to the May record of 1,540,000 tons. Department store sales were up 6 percent from August. Contracts for the defense effort are beginning to mount in the State; the largest reported to date was that given to Ford Motor Company, which will manufacture B-36 aircraft engines in the Tucker plant.

Electric Power Production

Daily average electric power production in the State in September was 57.3 million kilowatt hours, up 3 percent from August and 14 percent above last year's level.

A recent report by the Rural Electrification Administration shows that Illinois farmers have been making much wider use of electrical appliances in recent years.

Average monthly consumption on REA-financed lines jumped from 69 kwh. in 1941 to 170 kwh. in 1949. The report also shows that 97 percent of Illinois farms are now electrified, leaving fewer than 6,000 of the 198,520 farms without electricity, and these are mostly in remote areas. Nationally, only 86 percent of the farms have electricity.

Construction

Construction activity during the month was considerably below the August peak, but still high in comparison with last September. The dollar value of construction for the first nine months of 1950 was 52 percent greater than for the same period last year. Nationally, the nine-month total for 1950 was 50 percent higher than 1949.

Plans for the construction of one of the largest crude oil pipeline projects since the war have recently been completed. Platte Pipe Line Company is constructing a 20-inch line, extending from the Worland area of Wyoming to the Wood River refinery area, which will have an initial delivery capacity of 70,000 barrels daily. Cost of the 1,080-mile line is estimated at \$60 million.

In the Chicago area, National Video Corporation has acquired 6 acres of land and will construct a 150,000-square foot building which will be used to manufacture television tubes. Philco Distributors, Inc., is constructing a new warehouse. The Acme Steel Company at Riverdale is constructing a new reception building to cost \$125,000, and Production Steel Company will build a new plant in Broadview. A new garment factory estimated to cost \$200,000 is to be built at Du Quoin.

Consumers' Prices

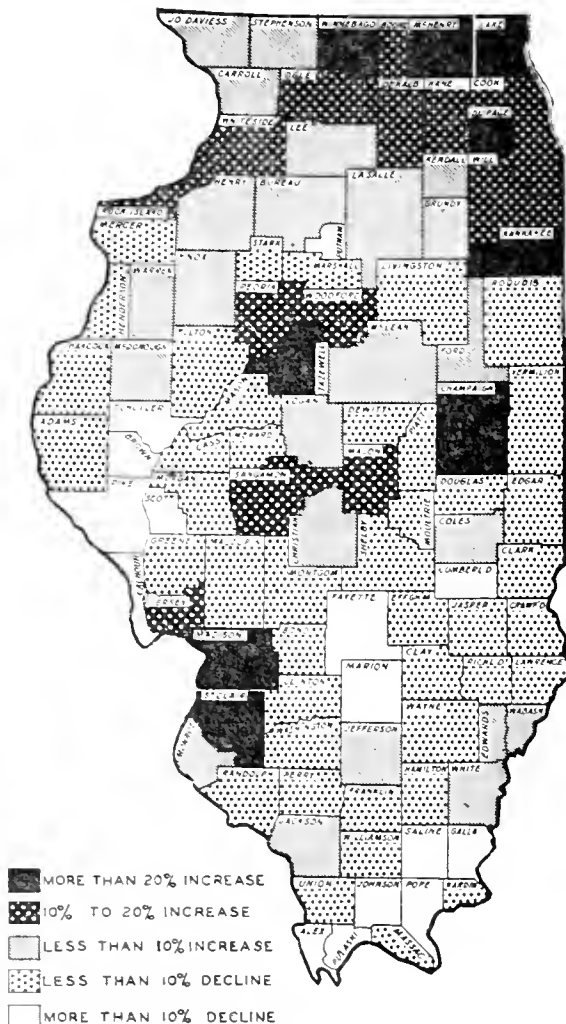
In mid-September, the Chicago consumers' price index was 179.8 percent (1935-39 = 100), down fractionally (0.2%) from mid-August. A drop in food prices was responsible for the slight drop, the first decrease reported since February. Declines in the indexes of retail food prices in Peoria and Springfield also were reported. The Peoria retail food cost index in mid-September was 225.5 percent of its 1935-39 average, down 0.6 percent from August, and the Springfield index declined 1.2 percent to 220.0 percent of its 1935-39 average.

Illinois Population

The number of people living in Illinois rose by 10.3 percent in the last decade. The State population as of April 1 of this year was 8,684,513, an increase of 787,272 since 1940. A total of 45 counties gained in population while 57 counties experienced declines. Champaign County reported the largest relative gain, 50 percent. Generally, the counties showing the greatest percentage increases were those in which the larger cities of the State are located. (See chart) However, within those counties, the suburban areas had the largest gains rather than the principal cities themselves. For instance, Chicago gained only 6.2 percent, while the remainder of Cook County gained 33 percent; East St. Louis gained only 8.4 percent, while the remainder of St. Clair County gained 35 percent; and the city of Peoria gained only 6.1 percent, while the remainder of Peoria County gained 29 percent and neighboring Tazewell County gained 30 percent.

The increase in the population of Illinois was less than the 14.5 percent rise in the population of the nation. As a result, Illinois will lose one of its twenty-six seats in the 83d Congress, which will be elected in 1952.

ILLINOIS POPULATION
Percentage Change, 1940 to 1950



Source: U. S. Census of Population, 1950.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

September, 1950

	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS	\$24,642 ^a	798,693 ^a	\$489,474 ^a		\$10,121 ^a	\$11,054 ^a
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....	{ +1 7 +10.8	{ +4 6 n.a.	{ +5 5 +4.1	{ +1.6 +22.7	{ +6 0 +1.0
NORTHERN ILLINOIS						
Chicago	\$17,075	627,898	\$357,140		\$9,188	\$9,801
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....	{ +1.6 +9.2	{ +5.5 n.a.	{ +6.4 +3.2	{ +1.8 +23.3	{ +7.3 +0.8
Aurora	\$ 320	n.a.	\$6,709		\$ 40	\$ 76
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....		{ +1 9 n.a.	{ +5.7 +13.0	{ +3 9 +22.1	{ -5.7 +3.8
Elgin	\$ 159	n.a.	\$5,219		\$ 27	\$ 74
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....		{ +7 2 n.a.	{ +5 9 +15.9	{ +7.5 +18.8	{ +0 9 +27.8
Joliet	\$ 448	n.a.	\$8,991		\$ 46	\$ 57
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....		{ +5.0 n.a.	{ +6.1 +9.5	{ +6 6 +23.5	{ +15.8 +12.6
Kankakee	\$ 100	n.a.	\$4,690		n.a.	\$ 28
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....		{ +3.5 n.a.	{ -7 9 +14.9		{ -3.8 +0.2
Rock Island-Moline	\$ 791	14,366	\$8,829		\$ 34 ^b	\$ 134
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....	{ -3 0 -0 9	{ -1.4 n.a.	{ n.a.	{ +12.3 +32.5	{ +1 9 -4.5
Rockford	\$1,126	23,334	\$14,450		\$ 115	\$ 141
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....	{ +2.9 +29.3	{ +3.1 n.a.	{ +5.7 +9.1	{ +6 5 +33.2	{ +3 9 +9.0
CENTRAL ILLINOIS						
Bloomington	\$ 280	4,535	\$5,234		\$ 46	\$ 61
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....	{ -2.5 +25.2	{ +0.4 n.a.	{ n.a.	{ +1.5 +16.8	{ -13.1 -7.2
Champaign-Urbana	\$ 318	6,164	\$6,654		\$ 45	\$ 62
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....	{ -0.7 +18.6	{ -2.5 n.a.	{ n.a.	{ -4.7 +14.3	{ +3.1 +3.4
Danville	\$ 280	6,955	\$5,717		\$ 38	\$ 45
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....	{ -4.4 +9.9	{ +0.5 n.a.	{ -5.9 +3.6	{ -1.3 +13.3	{ -3.8 +2.6
Decatur	\$ 184	16,398	\$9,188		\$ 74	\$ 74
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....	{ -2.8 +34.6	{ +2.3 n.a.	{ +3.8 +7.3	{ -6 6 +8.2	{ -1.1 -3.7
Galesburg	\$ 105	4,622	\$4,018		n.a.	\$ 24
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....	{ -4.1 +21.7	{ +3.6 n.a.	{ n.a.		{ -4.7 -7.2
Peoria	\$ 942	43,844 ^c	\$17,093		\$ 199	\$ 160
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....	{ +13.9 +17.5	{ +3.1 n.a.	{ -2.1 +5.8	{ -4.1 +15.9	{ -3.2 -4.4
Quincy	\$1,566	6,370	\$4,900		\$ 31	\$ 54
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....	{ -1.3 +3.4	{ +2.3 n.a.	{ +8.0 +7.0	{ -1.0 +9.3	{ -25.1 -11.8
Springfield	\$ 501	20,061 ^c	\$12,623		\$ 85	\$ 166
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....	{ -0.9 +12.1	{ -2.8 n.a.	{ +6.5 +3.7	{ +7.2 +16.8	{ -3.0 +5.2
SOUTHERN ILLINOIS						
East St. Louis	\$ 136	9,329	\$9,167		\$ 126	\$ 46
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....	{ -2.5 +7.6	{ +7.2 n.a.	{ n.a.	{ -0.9 +9.1	{ -0.8 +16.1
Alton	\$ 186	10,410	\$4,628		\$ 26	\$ 22
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....	{ -3.5 +15.8	{ +4.4 n.a.	{ n.a.	{ +0.6 +16.5	{ +7.1 +21.2
Belleville	\$ 125	4,406	\$4,225		n.a.	\$ 28
Percentage Change from.....	{ Aug., 1950 Sept., 1949.....	{ +2.1 +21.9	{ +6.6 n.a.	{ n.a.		{ -16.8 +9.3

Sources: ¹U. S. Bureau of Labor Statistics. Data include Federal construction projects. ²Local power companies. ³Illinois Department of Revenue. Data are for August, 1950, the most recent available. Comparisons relate to July, 1950. ⁴Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵Local post office reports.

^a Total for cities listed.

^b Moline only.

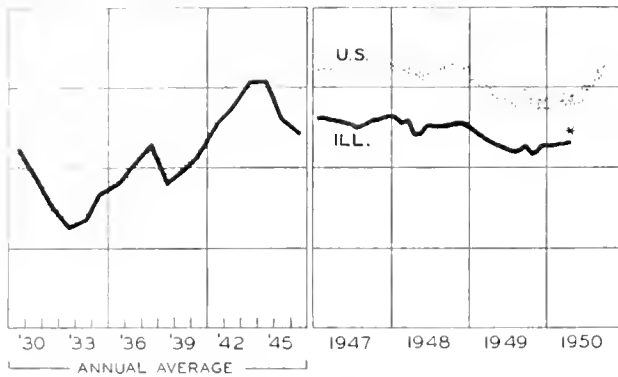
^c Includes immediately surrounding territory.

n.a. Not available.

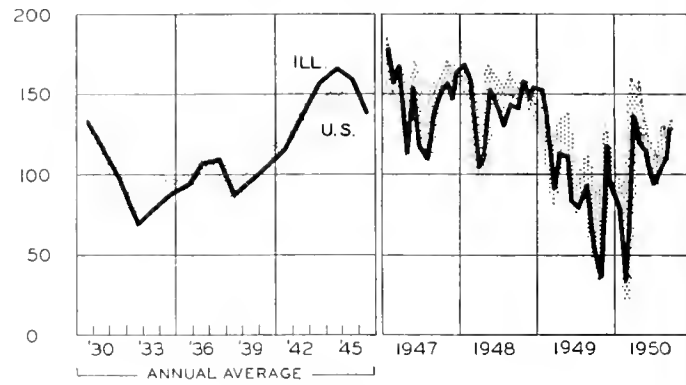
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

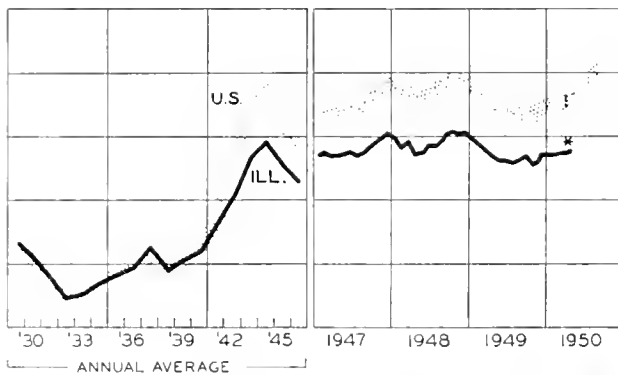
EMPLOYMENT - MANUFACTURING



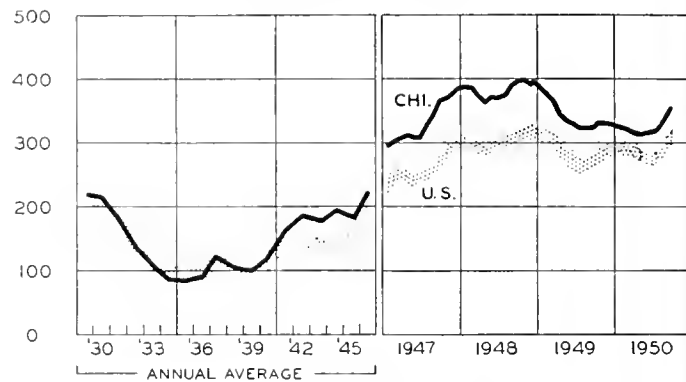
COAL PRODUCTION



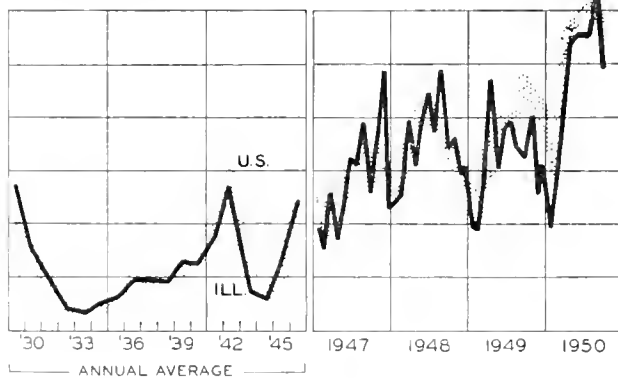
PAYROLLS - MANUFACTURING



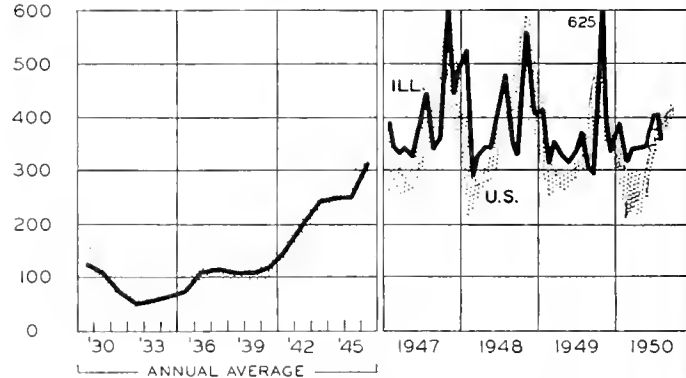
BUSINESS LOANS



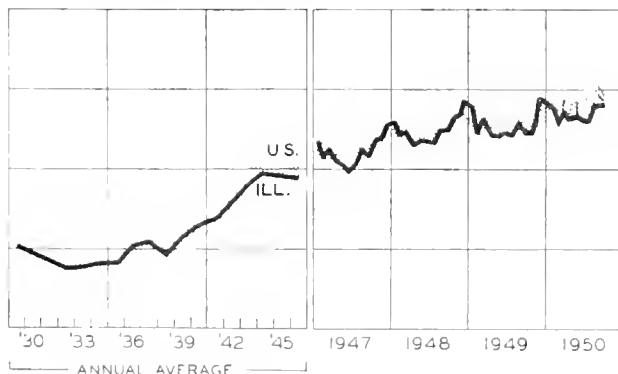
CONSTRUCTION CONTRACTS AWARDED



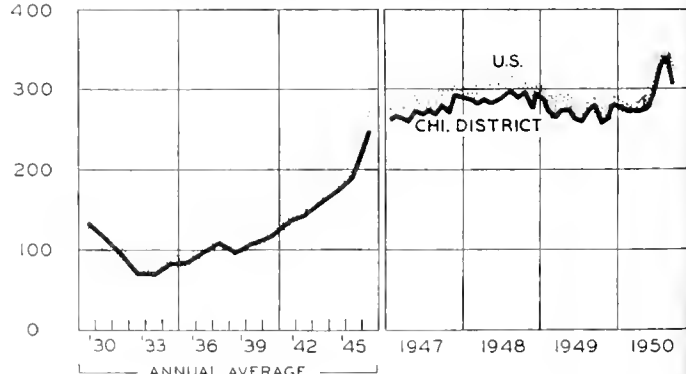
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



* Illinois figures being revised.

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p. 2

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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NUMBER 12

HIGHLIGHTS OF BUSINESS IN NOVEMBER

The effects of partial mobilization began to be felt throughout the nation as November drew to a close. Restrictions on the use of such basic materials as steel, aluminum, rubber, copper, nickel, and zinc are expected to reduce sharply the production of many civilian goods (Special article, p. 8). Credit restrictions have already curbed the sales of automobiles and other heavy consumer durables, as the volume of consumer credit outstanding appears to be leveling off in the neighborhood of \$19 billion.

The problem of equating the record demand for goods with the available supply is becoming increasingly difficult. This is especially so in view of rising military demands and the fact that the economy appears to be operating at near capacity for the time being. After jumping nearly 30 percent from September to October to a postwar high of 215, the Federal Reserve Board index of industrial production in November is expected to remain at October's level.

Prices Continue Advance

The record demand for goods has, not unexpectedly, resulted in further price increases. By the end of November, the Bureau of Labor Statistics index of wholesale prices had reached a new all-time high of 171.7 percent of the 1926 average. On the average, wholesale prices are now 9.1 percent above the pre-Korean levels and 13.3 percent above last November. The main increases as compared with last year have taken place in the prices of livestock, meats, textiles, building materials, and chemicals; each of these commodity groups has risen 15 percent or more.

Wholesale prices are not the only ones to reach new highs. The consumers' price index advanced to an all-time high of 174.8 percent of its 1935-39 average by October 15, mainly on the strength of a 2.3 percent hike in housefurnishings prices. The farm parity ratio rose two points in the month ended November 15, to a two-year high of 105, as the index of prices received by farmers jumped 3 percent in the month.

Unemployment Rises Slightly

The entrance of many persons seeking temporary holiday employment into the labor force and the conversion of some plants to military production led unemployment in November to rise to 2.2 million, slightly above the

October level. Nevertheless, the stepped-up pace of industrial production caused total nonfarm employment to reach an all-time high for November of 53.7 million. Further increases in nonfarm employment are clearly in prospect as the defense program attains momentum.

Farm employment declined seasonally by almost one million workers. As a result, total employment fell off half a million from the October level.

Construction Boom Maintained

The construction boom is still going full blast, although the value of new construction put in place in November declined 8 percent from the October level. Most forms of nonresidential building actually rose over October, against the usual seasonal downturn, but a 10 percent drop in private home building, due no doubt to the recent restrictions on housing credit, accounted for the over-all decline. Government restrictions were also responsible for a fall in the construction of amusement and recreational facilities, the only other private construction category to decline.

Despite the drop, the \$2.5 billion of total construction activity and the \$1 billion of private home building during the month represent the highest November levels on record. Total outlays for new construction so far this year exceed \$25 billion, 22 percent above the total for the first eleven months of 1949.

Manufacturers' Backlogs Increase

Despite record levels of production, manufacturers' backlogs continued to rise. New orders of manufacturers in October advanced by 4 percent over the September total to \$24.6 billion. Manufacturers' sales in the month also rose, but amounted to only \$22.9 billion. Hence a further increase in unfilled orders took place, though part of this increase undoubtedly represents military orders scheduled for future delivery.

The rush to acquire durable goods is mainly responsible for the huge backlog of orders. Nearly 85 percent of total unfilled orders in October was on the books of durable-goods manufacturers. Some idea of the pressure on durable goods may be obtained from the fact that, on the basis of October sales, the average durable-goods manufacturer would have to work three months to take care of his unfilled orders as against two weeks in the case of nondurable-goods manufacturers.

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In Defense of "Inflation"

Although the price advances of the past half year are commonly referred to as "inflation" and continuing upward pressure on prices is inherent in the war program, the current economic situation is not one of out-and-out inflation. It is true that consumers' prices reached a new record high in October, but except for the sharp upsurge from April to July, the advance was relatively moderate. From July to October the increase amounted to only 1.3 percent, or less than $\frac{1}{2}$ percent per month. Wholesale prices advanced more rapidly but, like retail prices, barely regained their previous peak. More recently, following the Chinese counterattack in Korea, a new push in prices got under way.

Unless it is assumed that the Korean war will become global in the near future, surges like those of July and November must be regarded as temporary patterns in the advance. They derive, not from the actualities of military procurement, but from expectations of things to come. Their effect is to anticipate the future rather than to establish new trends. What the future justifies becomes current through developments like the rush to accumulative inventories; in October, the increase in business inventories reached an annual rate of \$15 billion.

More feared by some than the mere increase in prices is the fact that wages are also on the uptrend. From June to October average hourly earnings in manufacturing industries increased 3 percent, slightly more than the increase in prices. But even if wage payments continued to move up with prices, there could be no real danger of a self-perpetuating wage-price spiral. Part of each increment of income "leaks out" of the income stream. A large portion of recent wage increases has gone into higher taxes or pension reserves rather than into take-home pay. Savings also will increase. These "leakages" inevitably limit the advance. The "spiral" can be expected to go up coordinately with the expansion of military programs, but not much further.

Nor is this situation at all like the great inflations of history. Typically, those were produced by ever-mounting government deficits financed by unrestrained expansion of the money supply. Today, the Federal budget is moving from a rather substantial deficit toward balance. Even with the stepped-up military program, the government's cash receipts will approximately equal its cash payments in the current fiscal year. And on a reasonable

projection—like that attempted here two months ago, though accelerated somewhat toward a higher goal—the deficit will be moderate even in fiscal 1952.

Control Policy

There can, of course, be no justification for permitting sharp price advances, like those of all-out inflation, to continue over an extended period of rearmament. If the present expansion of military expenditures continues into a full war effort, there will be no alternative to over-all price and wage controls.

The question now, however, is how long less all-pervasive forms of control can suffice. Through most of 1951, the increase in total production should exceed the increase in military production, leaving increased supplies available for civilian use. The pressure on prices need not be severe, therefore, for some time to come.

Sound policy in these circumstances would call for preparation against a price emergency, but withholding of over-all controls until they were clearly required. It is significant that those with the most direct experience of the difficulties and disadvantages of price controls during World War II are least eager to have them reimposed. When they are imposed, resources are necessarily wasted in administration; normal productive processes meet interference and initiative is frustrated; monopolistic practices grow and are imbedded in the economic structure; and lawlessness and inefficiency are fostered in black market operations. Only in a real emergency can the co-operation necessary to make the controls effective be elicited. It is not a prospect to be undertaken lightly.

What may as well be recognized is that there can be no easy way out when civilian supplies are being curtailed by diversion into war use. Of necessity, all of us will have to share the burden; and all of us will lose, not when prices and incomes are rising moderately, but when production is unnecessarily restricted. The objective, therefore, should be to maximize total production while providing fully for military needs. In so far as this objective is furthered by price and wage changes, "inflation" must be regarded as a valid instrument of control policy.

As a rule, few people are really harmed by moderate increases in prices and incomes. Few incomes are really fixed; and such movements, occurring over extended periods, are normal rather than unusual in our economy. Even when prices are advancing as rapidly as 1 percent a month—as they were in the years just before imposition and just after termination of the wartime controls—there is little hardship in an economy that offers numerous opportunities for remunerative employment.

Fiscal and Monetary Measures

In these circumstances, the appeal to all-out fiscal and monetary measures as the only hope for economic salvation may easily be overdone. What needs to be considered is precisely the degree to which such measures are preferable to some further price advances.

As a practical matter, only one fiscal measure seems to offer an effective means of restraining the advance, and that is taxation. Credit restrictions have already been applied on consumers' durable goods and housing. Whether consumer credit can be tightened sufficiently to cut purchases as much as they will be cut by restrictions on production is doubtful. The problem of restricting business credit is even more complex, because so much expansion is required in civilian as well as in war in-

(continued on page 9)

GLOVEMAKING

Gloves were one of man's first clothing accessories. From prehistoric times men tried to protect their hands, usually with rude fur mittens rather than gloves as we know them today. The first fingered gloves were worn thousands of years before the Christian era by the Egyptian Pharaohs, and they were popular with both Greeks and Romans centuries before they were brought into Western Europe from Italy during the Middle Ages. At first only men of wealth and position wore gloves, which were made to measure and were often heavily perfumed and encrusted with jewels. Women did not begin to wear them until the sport of hawking became popular about the 15th century. The gloves made to protect the ladies of the courts from the claws of the falcons they carried on their wrists were one of the earliest types of work gloves, as distinguished from gloves for dress wear or protection from the elements.

Queen Elizabeth was very fond of wearing gloves and, as a compliment to her, they began to be more widely worn in England and their makers formed groups or guilds. The first organized glove industry in Europe grew up in the city of Perth in Scotland.

By the 18th century the industry was well established in Britain, and about 1760 Sir William Johnson brought a company of glovers from Scotland to Fulton County, New York, to start a glove center in America like that in Perth. The small settlement, called Gloversville, did not sell gloves beyond the adjoining towns until about 1810, but a century later almost half of all the gloves made in the United States came from Fulton County. The state of New York still leads the nation in the production of gloves for dress and semi-dress wear.

Although for years the industry was primarily devoted to the manufacture of dress gloves, the production of gloves for the protection of industrial and farm workers was increasing in importance. In 1947 the value of work-glove production exceeded the \$75 million dress-glove total by \$15 million. The value of fabric and leather-faced work gloves, which made up 80 percent of the work-glove total, was almost as high as the total value of leather, fabric, and combination dress gloves together.

Work-Glove Production Centers in Midwest

The glove industry originally came to the Chicago-Milwaukee area to be near the source of supply of the stronger leathers used in making heavy gloves and mittens. The industry continued to grow in this area until today the Midwest leads in the production of work gloves of all kinds.

In 1947 Wisconsin ranked first in sales value of all-leather work gloves, while Illinois was the nation's leading producer of fabric and leather-faced work gloves. Illinois glove manufacturers include some of the largest companies in the industry. The Boss Manufacturing Company, the biggest producer of work gloves and mittens in the world, has plants in Kewanee and Peoria, and other large manufacturers are located in Chicago, and

in Carbondale, Effingham, and Beardstown downstate.

As some of the first all-fabric work gloves were made by Boss about 1910, the cotton glove industry is comparatively young. Although Illinois is still important in the relatively small leather work-glove industry, in which it ranks second in number of people employed, the original heavy leather glove manufacturing in this area rapidly declined. The cheaper cotton and leather-faced products required less expensive materials and were found to take less time and skill to produce.

Originally a Needle Industry

Like many other early American industries, glove manufacturing was entirely a hand operation at first, and was often carried on by entire families in their homes. A new era began for the industry about 1850 with the invention of the sewing machine. Today mechanical equipment very similar to that employed in shoe manufacturing is used for glove cutting, sewing, forming, and pressing operations.

The manufacture of gloves for use in manual labor is less skilled and a good deal more mechanized than that of dress gloves. Manufacture of the finest quality gloves may require over 80 individual operations and handling by at least 100 skilled operators.

The skins used in glovemaking come in great variety from all over the world. Typical heavy glove leathers are horsehide, deerskin, sheepskin, and cowhide, whereas popular leathers for dress gloves are fine kidskin, doeskin, and pigskin. The chief fabrics used in work gloves are cotton flannel and jersey cloth, sometimes combined with leather.

Gloves for Every Task

Because work gloves are strictly for protection and each type is adapted to a specific use, they are often very unusual looking. Saddle leather hand pads safeguard handlers of the hot objects and sharp-edged materials of the foundry, and special gloves are made for such tasks as welding, fire-fighting, and cornhusking. Some are reinforced with steel ribbons like the open-ended leather mittens used for handling steel sheet and lumber.

During World War II, the glove industry supplied the armed forces with a variety of articles including mittens for arctic wear, gloves for handling barbed wire, and aviators' gloves, some of which were electrically heated for high altitude flying.

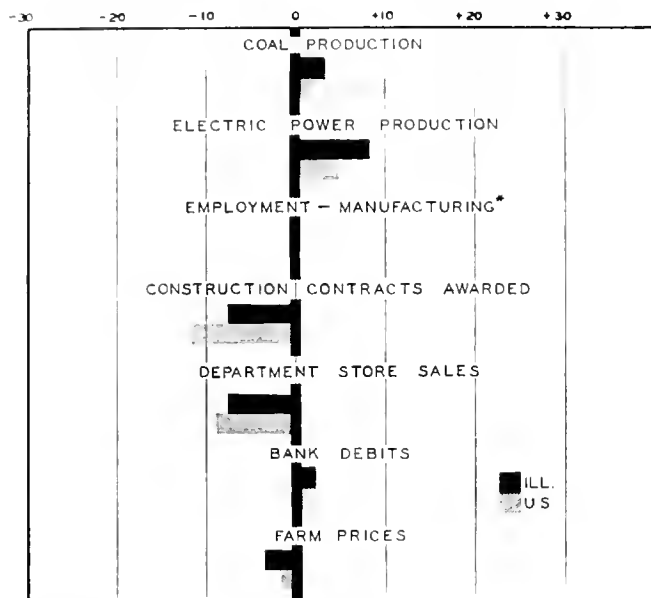
Most of the gloves required by the armed forces are made entirely of leather and are supplied by the leather glove industry, whose normal output for the services is about 2 percent of total production. However, military orders have been increasing for the past eight months and are soon expected to approach 50 percent of the industry's sales. Gloves, therefore, whether worn by welders or marines, have become a war essential and a far cry from their foppish ancestors whose use was once considered an affectation.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes September, 1950, to October, 1950



* Figure for Illinois not available.

ILLINOIS BUSINESS INDEXES

Items	October 1950 (1935-39 = 100)	Percentage Change from	
		Sept. 1950	October 1949
Electric power ¹	307.4	+8.7	+24.9
Coal production ²	135.4	+3.4	+266.3
Employment—manufacturing ³	n.a.	.....	.....
Payrolls—manufacturing ³	n.a.	.....	.....
Dept. store sales in Chicago ⁴	229.3 ^a	-2.6	+5.6
Consumer prices in Chicago ⁵	180.4	+0.3	+3.4
Construction contracts awarded ⁶	453.6	-7.5	+13.1
Bank debits ⁷	331.9	+2.2	+25.0
Farm prices ⁸	238.7	-3.3	+12.2
Life insurance sales (ordinary) ⁹	201.4	+5.5	+18.5
Petroleum production ¹⁰	245.1	+3.7	-1.3

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Repts.; ⁹ Life Ins. Agency; ¹⁰ Manag. Assn.; ¹⁰ Ill. Geol. Survey.
^a Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	October 1950	Percentage Change from	
		Sept. 1950	October 1949
Personal income ¹	230.1 ^a	+ 0.6	+13.7
Manufacturing ¹.....	.....	.....	.....
Sales.....	254.4 ^a	+ 1.0	+34.2
Inventories.....	31.4 ^{a, b}	+ 2.6	+ 8.7
New construction activity ^{1*}.....	.....	.....	.....
Private residential.....	14.6	- 7.1	+45.9
Private nonresidential.....	9.2	+ 0.4	+13.9
Total public.....	8.6	- 3.0	+ 6.3
Foreign trade ¹.....	.....	.....	.....
Merchandise exports.....	10.8	- 0.7	+ 6.0
Merchandise imports.....	11.1	+ 7.3	+65.4
Excess of exports.....	-0.3	.....	.....
Consumer credit outstanding ².....	.....	.....	.....
Total credit.....	19.4 ^b	+ 0.3	+12.4
Installment credit.....	13.4 ^b	+ 0.3	+31.6
Business loans ²	16.3 ^b	+ 3.8	+19.2
Cash farm income ³	43.2	+28.6	+ 7.3
Indexes (1935-39 = 100)			
Industrial production ²	215 ^a	+ 1.4	+29.5
Combined index.....	215 ^a	+ 1.4	+29.5
Durable manufactures.....	260 ^a	+ 3.2	+48.6
Nondurable manufactures.....	195 ^a	+ 0.5	+10.2
Minerals.....	167 ^a	+ 2.5	+49.1
Manufacturing employment ¹.....	.....	.....	.....
Production workers.....	163	+ 0.6	+15.2
Factory worker earnings ⁴.....	.....	.....	.....
Average hours worked.....	110	+ 1.0	+ 4.3
Average hourly earnings.....	250	+ 1.1	+ 7.5
Average weekly earnings.....	276	+ 2.1	+12.2
Construction contracts awarded ⁵	481	-11.7	+ 7.0
Department store sales ²	292 ^a	- 8.8	+ 5.4
Consumers' price index ⁴	175	+ 0.6	+ 3.7
Wholesale prices ⁴.....	.....	.....	.....
All commodities.....	210	- 0.2	+11.1
Farm products.....	234	- 1.4	+11.4
Foods.....	218	- 2.7	+ 8.1
Other.....	199	+ 1.4	+11.4
Farm prices ³.....	.....	.....	.....
Received by farmers.....	250	- 1.5	+10.7
Paid by farmers.....	202	+ 0.4	+ 6.8
Parity ratio.....	103 ^c	- 1.0	+ 5.1

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b As of end of month. ^c Based on official indexes, 1910-14 = 100. * Data revised; not comparable with figures in previous issues.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1950					1949
	Nov. 25	Nov. 18	Nov. 11	Nov. 4	Oct. 28	Nov. 26
Production:						
Bituminous coal (daily avg.).....thous. of short tons.....	1,810	1,974	1,831	1,902	1,942	2,458
Electric power by utilities.....mil. of kw-hr.....	6,508	6,728	6,574	6,551	6,563	5,537
Motor vehicles (Wards).....number in thous.....	116.1	118.4	153.7	169.6	179.6	71.9
Petroleum (daily avg.).....thous. bbl.....	5,813	5,809	5,837	5,823	5,823	5,133
Steel.....1935-39=100.....	221.9	221.9	222.5	221.2	221.7	161.5
Freight carloadings.....thous. of cars.....	701	837	840	862	888	665
Department store sales.....1935-39=100.....	319	368	342	315	313	330
Commodity prices, wholesale:						
All commodities.....1926=100.....	171.2	171.0	170.0	169.6	168.9	151.7
Other than farm products and foods.....1926=100.....	162.4	162.6	162.2	161.9	160.8	145.0
28 commodities.....August, 1939=100.....	343.1	346.6	342.5	336.1	332.2	250.0
Finance:						
Business loans.....mil. of dol.....	16,989	16,919	16,710	16,529	16,322	13,772
Failures, industrial and commercial.....number.....	146	170	135	181	160	148

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Slows

Severe weather was an important factor in limiting industrial activity during November. Steel production was maintained at a level 2 or 3 percent above capacity for most of the month, averaging about 1,980,000 tons weekly, but was cut sharply by the storms that blanketed the eastern United States on Thanksgiving week end; in the following week, output dropped to 82 percent of the rated capacity, or 1,575,000 net tons of ingots and castings. Coal was likewise adversely affected, with tonnage mined in the bituminous industry dropping from an average of 11,400,000 tons to 9,050,000 tons weekly. Automotive production was cut sharply, not by weather but by model change-overs. Between the week ending November 4 and that ending November 25, weekly vehicle output dropped from nearly 170,000 cars and trucks to about 115,000, as most car makers completed the change. In each case, however, production recovered rapidly to high levels.

Important basic materials remain in short supply, despite record levels of production, and are the topic of increasingly urgent plans for expansion. Some of the steel companies have raised their sights considerably in planning expansion of their plants and the big three in aluminum are all projecting new facilities and improved utilization of existing plants.

Labor Situation Eases

The squeeze on the labor force slackened a little in November as farm work tapered off and unemployment rose. Nonagricultural employment rose to 53,721,000, highest November level on record, in spite of some layoffs caused by transition from peace to war production. These layoffs may have contributed to the rise of 300,000 in unemployment, but by and large the changes from October to November are seasonal in nature, reflecting the end of the crop year. One factor to be considered in regard to the labor force is the increasing demands of the armed forces. In November, 1,941,000 persons were in the armed services; mobilization plans call for 3,000,000 by next summer, and perhaps more, depending on developments. It is to be expected, therefore, that more women and older workers will be recruited for the civilian labor force.

Bureau of Census data, in thousands of workers, are as follows:

	November 1950	October 1950	November 1949
Civilian labor force.....	63,512	63,704	62,927
Employment.....	61,271	61,764	59,518
Agricultural.....	7,551	8,491	7,878
Nonagricultural.....	53,721	53,273	51,640
Unemployment.....	2,240	1,940	3,409

Wages and hours continued to rise from mid-September to mid-October for the nation's factory production workers. At an average of 41.4 hours, the work week was up .4 of an hour during the month and was the longest since December, 1945. Increases in hours worked in durable-goods industries were the most important factor in the over-all gain. Longer hours were general throughout durable-goods production plants with the largest advances shown by ordnance and accessories, lumber and wood products, primary metals, electrical machinery, and transportation equipment. Among nondurable products, only the apparel and other finished textile products group showed a notable increase in hours worked. Average hourly earnings rose by nearly 2 cents during the period, in durable-goods manufacture by about 1 cent and in

nondurables by slightly more than 2 cents. Weekly wages, rising from \$60.68 to \$61.98, another new high, reflected both longer hours and higher hourly pay, together with more general payments of overtime rates.

Prices Continue to Rise

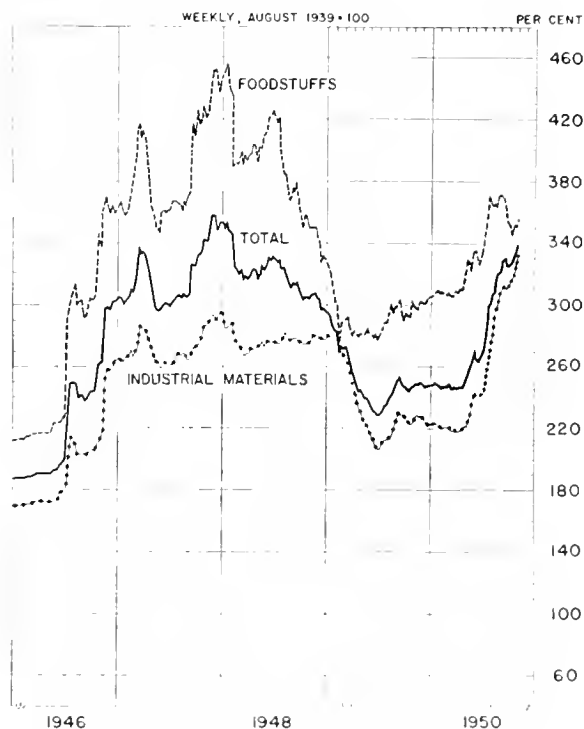
Prices generally rose more rapidly during November. The BLS index of wholesale prices of 28 basic commodities rose 3.4 percent to 346.8 (August, 1939 = 100). Foods, rising steadily during the month to 363.8 were nearly 4 percent higher on November 30 than on November 1. Industrial materials prices were up nearly 3 percent to 337.6. It may be seen from the chart, however, that even the recent substantial rises leave foods and the all-item index below their postwar peaks, and foods very much below their 1948 high point. In contrast, industrial materials, rising since May, are now considerably above the previous peak.

The all-commodities wholesale price index advanced fractionally each week during November to show a total gain of 1.2 percent for the four weeks ending November 28. At 171.7 (1926 = 100), the index had reached a new record high, a little more than 1 percent over the previous postwar peak of 169.8 set in August, 1948.

Consumer prices were up 0.6 percent from September 15 to October 15 to 174.8 (1935-39 = 100), another new high in the price field. The previous record was 174.5, set in August and September, 1948. For once, food prices were the least important factor in the index change, rising only 0.2 percent during the period. Housefurnishings were up 2.3 percent during the period and apparel 1.5 percent.

The Bureau of Labor Statistics, in releasing monthly data, reported that the rent component of the index is

WHOLESALE PRICES: BASIC COMMODITIES



Source: Bureau of Labor Statistics. Reproduced from a Federal Reserve chart.

shortly to be revised, and estimated that the index is now too low by 1.3 percentage points. After correction for the downward bias in rents, which now amounts to about 6 percent, the October index would be 176.1 percent of the 1935-39 average.

National Product Booms

The outbreak of hostilities in Korea, added to peak-level activities, boosted gross national product substantially during the third quarter. Data recently published by the Department of Commerce indicate that by far the largest proportion of the advance occurred in spending for consumers' goods, which rose \$13 billion at an annual rate over the second quarter, the largest quarterly gain on record. Both durable and nondurable goods were bought more freely, but durables increased by nearly \$7 billion as a result of forward buying of items most likely to be affected by the prospective switch to war production. About one-third of the total rise in consumption spending reflected price increases, the remainder showing greater volume.

GROSS NATIONAL PRODUCT OR EXPENDITURE

(seasonally adjusted, billions of dollars at annual rates)

	3rd Qtr. 1950	2nd Qtr. 1950	3rd Qtr. 1949
Gross national product.....	284.3	270.3	254.4
Personal consumption.....	198.4	185.2	179.0
Durable goods.....	33.5	26.7	24.7
Nondurable goods.....	104.9	99.3	97.6
Services.....	59.9	59.2	56.6
Domestic investment.....	48.4	46.9	32.1
New construction.....	22.8	21.3	16.9
Producers' durable equipment	27.1	22.3	19.4
Changes in business			
inventories.....	-1.5	3.4	-4.2
Nonfarm inventories only..	-1.0	4.0	-3.2
Foreign investment.....	-3.3	-2.0	.1
Government purchases.....	40.8	40.2	43.2

INCOME AND SAVINGS

National income.....	n.a.	229.1	216.7
Personal income.....	224.8	215.1	203.8
Disposable personal income ..	204.7	195.6	185.1
Personal saving.....	6.4	10.4	6.2

Domestic investment rose by \$1½ billion with expenditures on plant and equipment gaining substantially at the expense of inventories, which were depleted by increased sales. Net foreign investment was cut still further during the quarter as purchases of supplies from abroad were increased both for consumption and for stock-piling.

Government purchases, up slightly during the third quarter, were still 5 percent lower than in the third quarter, 1949. Procurement programs have not as yet resulted in large increases in Federal spending, although there was a moderate rise during the third quarter. However, rising expenditures were nearly offset by declining foreign aid and by sales of agricultural commodities previously bought to support farm prices.

Of the nearly \$10 billion gain in personal income, \$7 billion occurred in wage and salary payments. About half the latter advance was attributed to increased employment and about half to longer hours and higher hourly earnings.

Consumer Credit About Steady

The impact of the FRB's restrictions on consumer credit finally began to be felt in October, when credit outstanding rose by only \$51 million as compared with rises of more than \$300 million monthly since May. After

the Board's long-awaited revision to exclude loans of over \$3,000, consumer credit totaled \$19.4 billion of which \$13.4 billion represented installment loans, up \$42 million from September.

Business loans, however, continued to climb rapidly. Weekly advances ranged from \$70 million to \$237 million, with a total increase of more than \$600 million for the four weeks ended November 29. Loans outstanding for commercial, agricultural, and industrial purposes totaled \$17.1 billion by the end of the month, an increase of \$3.5 billion since the end of June and \$3.3 billion over November, 1949. Some of the increase in loans can be attributed to price advances, but the fact remains that loans have been increasing relative to business inventories.

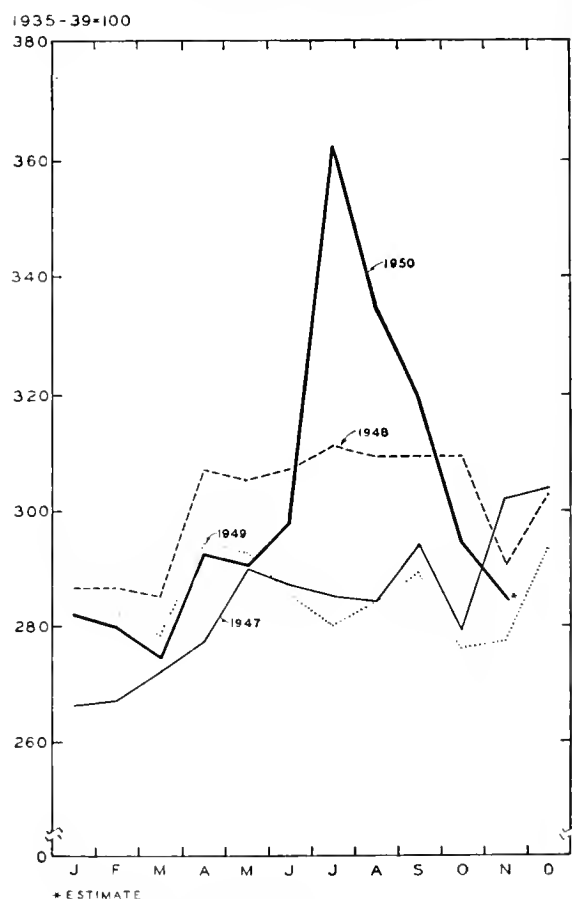
Department Store Sales Strong

In contrast with this time last year when department store managements were worried about lagging sales, recent months of 1950 have so far been more lively, as shown in the chart. The scare-buying spree of July, which caused concern for quite a different reason, has spent itself and it seems likely that the November level of sales is near that which might have been expected without war influences. Sales for November, although lower than in the corresponding months of 1947 and 1948, are still well above last November's level.

Total retail sales continued to decline from earlier boom levels in October as Korean developments seemed more favorable and expectations of shortages lessened, but October sales were still 9 percent over October, 1949.

DEPARTMENT STORE SALES

(seasonally adjusted)



Source: Federal Reserve Board.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Measuring Moisture

A measuring instrument for the control of moisture in grain and flour that has been popular in Europe will soon be available in the United States, according to Emile Garden, manufacturer's representative, Bridge Street, New York 4, N. Y. Called Aqua-Part, the device provides a fast and accurate system of moisture calculation. Portable, and operating on a dry battery, it gives analytically correct moisture content in one minute. The results can be read immediately and directly on a large dial without reference to charts or diagrams.

Wage-Hour Bulletin

A new Wage-Hour interpretive bulletin entitled "Retail and Service Establishment and Related Exemptions" has been issued by the Wage and Hour Division of the Department of Labor. Described as a practical guide to employers and employees, it explains how retail and service establishments may qualify for overtime pay exemptions under the Fair Labor Standards Act. About 7 million employees in the retail trade establishments and about 5 million in service industries are affected by these exemptions, and all but a small proportion of the retail and service establishments will be removed from the jurisdiction of the minimum-wage and overtime-pay requirements of the wage-hour law. Typical local retail or service establishments that will be exempted include grocery, hardware, clothing, and furniture stores.

Silicone Rubber Compound

General Electric has developed a new silicone rubber compound that is said to permit rubber fabricators to mold silicone rubber parts with highly improved mechanical and thermal properties. It is outstanding for its ease in processing and many parts can be fabricated from it without prolonged oven cure. After only a 5-minute warm up, it has excellent molding and extrusion properties. Fabricated parts obtained with the new compound have high tensile strength, high elongation, excellent electrical properties, and are serviceable over a wide temperature range. Many new applications for silicone rubber mechanical goods, including boots, belting, hose, and mountings, are expected to come from its use.

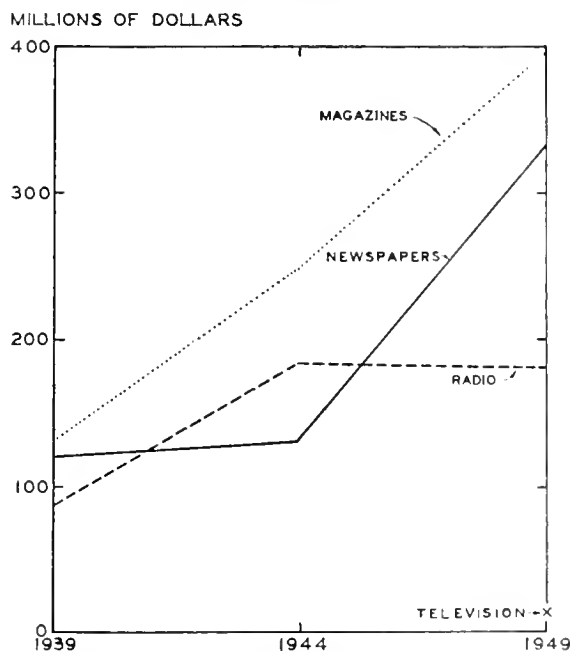
Social Security

Prentice-Hall, Incorporated (70 Fifth Avenue, New York 11, N. Y.) has published a booklet entitled: *The 1950 Social Security Act with Explanation*. The Social Security Act has had its first major overhauling since 1939 and now covers some 10 million persons who up to now have not been eligible for benefits. How these new provisions affect practically everyone who works, as well as those who employ workers, is the subject of this booklet. Employers will want to know what the new taxes will be, when and if they will change, how they will be withheld from the employees' wages, on what new employees and additional wages they will have to withhold the tax, what changes in the record system will have to be made, and what tax-saving opportunities are still available. New Social Security benefits for employees will also affect management's bargaining position with regard to employee demands for retirement plans.

Magazine Advertising

The Absolutes of Magazine Advertising is the title of a book put out by the Magazine Advertising Bureau, New York City, to tell the story of the national magazine as an advertising medium. It describes national magazine circulation and the characteristics of its audience, discussing magazine advertising and its effectiveness. As shown by the chart, magazine advertising receipts outrank those of newspapers, radio, and television and have almost trebled advertising volume since 1939. More than twice as many advertisers use magazines as their sole advertising outlets as depend on newspapers and the radio combined. The book stresses that no matter how much an advertiser may feel that his business is "different," he should not ignore the national magazine as an advertising medium.

VOLUME OF NATIONAL ADVERTISING
(advertisers spending \$25,000 or more
in each medium)



Source: Magazine Advertising Bureau.

Corrosion-Resistant Steel

The Carnegie-Illinois Steel Corporation announced recently that it has developed an exceptionally strong new steel, called T1, that was designed to provide two to three times the resistance to atmospheric corrosion offered by plain carbon steels. The strength of the steel, which remains tough even at temperatures below zero, is attributed to small quantities of a comparatively large number of alloying elements. T1 has almost twice the strength of the high-strength, low-alloy steels and can be economically made in quantity in standard open-hearth furnaces. It may be welded easily with welding electrodes that are now available, yet it possesses almost triple the strength of ordinary welding-grade structural steels.

INDUSTRIAL PRODUCTION CONTROLS

GEORGE A. STEINER, Associate Professor of Economics

At the moment the United States is ankle deep in the sea of mobilization controls. Even though the current crises in Korea may not plunge the nation into World War III, mobilization controls undoubtedly will expand in the coming months. If current threats to world peace result in World War III, they will of course expand tremendously in a short time.

The bulk of controls launched to date, as a result of the armament build-up program begun last summer, are industrial production controls instituted primarily by the newly created National Production Authority. Such controls have two primary objectives. First, they seek to insure that sufficient scarce resources will be available to meet military and most urgent civilian demands. Second, they attempt to insure an orderly and balanced flow of scarce materials through the industrial machine so that resources are used most efficiently to produce the largest volume of most needed goods and services. Four major types of industrial production controls have been introduced by the government to achieve these objectives.

Inventory Controls

The very first of the current production regulations (NPA Reg. 1) was issued "to prevent the accumulation of excessive inventories of materials in short supply." The order sought to do this simply by limiting the quantities of scarce materials that may be held to a "practicable minimum working inventory." The original order applied to a long list of basic materials, such as lumber, metals, rubber, textiles, and building materials.

Following the issuance of this order on September 18, 1950, a gradual mandatory reduction of inventories of some critical materials has taken place. Thus, for example, cobalt inventory has been limited to a 20-day production level. As more materials become scarcer relative to demand, further inventory restrictions can be anticipated. They will probably take the form, as with cobalt, of lower maximum permissible holdings.

Priority Regulations

On October 3, 1950, a comparatively simple priorities system was established (NPA Reg. 2). The regulation introducing the priority control set forth the kinds of purchase orders which could be rated, established their preference over all other orders, described the ground rules which industry must use in filling rated orders, and prescribed only one rating band symbolized by the letters "DO." Ratings were made extendable. Thus, any producer receiving a rated order was permitted to pass on the rating to his supplier, and the supplier to his sub-supplier, and so on down to the basic material producer. This system, of course, was designed to insure that contracts carrying a "DO" symbol would be filled promptly.

In World War II the simple priority system launched in 1940 quickly got into trouble. It broke down when rated orders on the books of producers increased beyond capacity. Then, the priority system was completely inadequate to adjudicate competing claims at any level of production. Conscious of this problem, the NPA has restricted the use of "DO" ratings to military contracts and the defense needs of the Atomic Energy Commission.

Pressures are increasing and will continue to grow to extend priorities to other producers of essential items who have production problems. Thus, for example, NPA

mill directives have been issued to steel producers to earmark 300,000 tons of steel per month for freight car production. Producers of power plant equipment also point to the essentiality of their product and their growing difficulties in acquiring basic materials and subassembly parts. Such pressure to expand the use of ratings will probably become too severe to resist. Ingenious methods of patching up the priority system may be devised, but eventually the result will be a replacement of the system in certain areas by comprehensive allocation controls.

Limitation Orders

Limitation orders are those which limit or restrict the output of specified end products. Introduced on a large scale in World War II, the limitation-order technique has been used sparingly today. Its principal use has been in prohibiting certain types of construction. M-4, dated October 26, for example, prohibits certain types of construction in thirty-five categories, such as baseball parks, country clubs, dance halls, and lodge clubs. The purpose of this sort of control, of course, is to conserve scarce resources by eliminating their less essential uses.

Further adoption of this type of order is quite likely. As materials become scarcer in relation to demand, pressure for differentiating among essentialities of uses for scarce materials is likely to lead to limitations on the production of less essential goods and services. This is particularly likely for less essential products which chew up important quantities of scarce materials.

Conservation Orders

Conservation orders issued in the past two months affect industry and civilian supplies more seriously than any of the three preceding methods of control. As the name implies, these controls are designed to conserve scarce materials by restricting their use in various products. Thus, for example, the copper conservation order (M-12) provides that no fabricator may use copper or copper-base alloys in December in amounts in excess of 100 percent of his average monthly consumption during October and November, 1950. Use in the first quarter of 1951 is limited to from 80 to 85 percent of his average monthly consumption in production in the first six months of 1950. Such reduction in the use of copper applies solely to civilian goods, since a manufacturer with a rated order may get copper to fill that order in addition to copper permitted to him for civilian production.

Other outstanding uses of this type of control have been made. The use of aluminum for nonmilitary production has been cut approximately 34 percent for the first quarter of 1951 production; civilian use of cobalt has been reduced by 70 percent; and natural rubber by 30 percent. Columbium has become so short that no one may now produce, sell, deliver, or purchase columbium alloys without a "DO" rating.

It is altogether likely that this type of control will be further used—to apply to more materials and to effect deeper cuts in materials now under control.

These conservation orders create a number of difficult problems. Five of the most important may be noted.

First, the "buckshot" approach of these orders draws no distinction between essential and unessential civilian products. Thus, copper used in ash trays is treated identically with copper used in public utility maintenance. As

the economy tightens it will become more and more apparent that certain types of civilian goods are more essential than others, not only for the civilian economy but also to support military programs. Recognition of this point has already put severe pressure on NPA to expand the use of "DO" ratings for essential civilian products.

Second, these orders penalize the nonintegrated versus the integrated producers. Thus, for example, a producer of refrigerators may find his supply of motors so seriously reduced, because of a conservation order affecting the production of his supplier, that he is forced to cut production. If given the chance he might be able to save much more of the material in question than his supplier by substituting less scarce materials in making his refrigerator shell. On the other hand, an integrated producer who supplies most of the parts for his refrigerator may be able to conserve enough scarce materials in the nonoperating parts to continue volume production of finished refrigerators.

Third, the use of a uniform base period applicable to all producers penalizes producers who for whatever reason had relatively low volume in the base period. The aluminum conservation order has already been modified in recognition of this sort of problem by replacing a single base period with several base periods from which producers may choose to operate.

Fourth, a serious problem is in the making next year if military orders are not placed in sufficient volume to utilize the productive capacity released by these orders.

Finally, varying treatments for different materials may upset balanced production schedules because producers cannot acquire all the materials they need in just the right amounts for efficient operation.

In Defense of "Inflation"

(Continued from page 2)

dustries. The individual banker is not in a position to discriminate between essential and nonessential loans and could not in any case enforce a ban on most civilian businesses by refusing loans.

Similarly, government expenditure programs offer far less possibility of savings than is commonly supposed. The really large programs are war-connected. Most of the others have already been the targets of economy drives for some time; and there are a variety of reasons why large further savings cannot be obtained in this way.

The question is, then, how much should taxes be increased? The idea that the war effort should be put completely on a pay-as-you-go basis sounds attractive, and seems to be working out for the time being as the budget approaches balance; but at some point on the road to full mobilization, it would almost surely prove impractical.

The idea that any general price increase should be prevented by higher taxation has less to recommend it even at the outset. Taxes cannot be readily adapted to changing conditions. Moreover, in some areas of acute shortage, it may be neither desirable nor possible to hold the line on prices. Then, if the general price level is to be kept stable, other prices would have to move down to compensate the advances; and there seems little justification for squeezing weak prices down in a period of rapidly expanding incomes and costs.

An important fact in this context is that "inflation" also brings higher tax revenues. Under our progressive tax system, expanding incomes and profits produce a

Trends in Control

Such difficulties will likely lead to comprehensive allocation programs, though parts of present controls will be kept to supplement the allocation machinery.

A comprehensive allocation system, such as the World War II controlled-materials plan, can solve several fundamental problems which current controls less effectively resolve. It can strike an over-all quantitative demand-supply balance among universally used materials which constitute a common limiting factor on total national production. It can equate marginal uses for scarce materials on a basis much more rational than that of the present conservation-type orders. Thus, the government can effectively discriminate against a less essential use for scarce material in favor of a more essential use. The control, by rationing materials throughout industry, can also establish a basis for orderly material flows and balanced production.

This summary reveals three important trends in the evolution of current industrial production controls. The first is the tendency for existing controls to expand into more areas. The second is the tendency for existing controls to become more restrictive. The third is a likely metamorphosis from present control patterns to comprehensive over-all allocation systems.

Short of a miraculous easing of international tensions, the impact of current and contemplated production control is likely to cause a decline in the standard of living. We are not likely to have both "guns" and "butter" in the current defense program as we did in World War II, because today the economy is tight as a drum, at very high employment and production levels, and lacks the large reserves of unused resources then available.

more than proportionate expansion of government receipts. Thus, an "inflation" of prices and incomes, while forcing the government to pay more for the goods and services it procures, will tend to increase government receipts more than it will expenditures.

Proposals for tax increases also raise the perennial questions: What kind of taxes? On whom should their burden fall? There is no assurance that any new taxes likely to be enacted will in fact distribute the burden of the war effort more equitably. They are likely to hit all alike—those whose incomes have fallen as well as those who have gained. The way rising incomes are effectively taxed is by getting up into the higher brackets, not by reduced exemptions or by small, regressive increases in tax rates.

Nor can it be demonstrated that taxes are per se a better way of allocating the burden among consumers than higher prices. The public pays in either case. Whether new taxes on income would restrict prices enough to better the real return to the average consumer is doubtful. There are substantial funds from sources other than current income bidding for the goods and services currently produced. These are more generally taxed by the rises in prices, and allow the individual the fullest discretion as to whether he will spend or save his income. A sales tax similarly allocates the burden to spenders rather than savers, but if such a tax is enacted, we may never be able to get rid of it.

It would hardly be wise to let the excitement of the moment hasten us into acceptance of measures that carry beyond the needs of the present situation.

VLB

LOCAL ILLINOIS DEVELOPMENTS

Most Illinois business indicators registered strong gains in October as compared with the preceding month and with October, 1949. Part of the percentage increases over last October were due to the generally depressed level of activity last year resulting from the work stoppages in the steel and coal mining industries.

Electric Power Production

Electric power production in the State increased 9 percent from September to reach a new all-time high of 1.9 billion kilowatt hours. This is 25 percent over the October, 1949, level.

A 69,000-volt transmission line of the Southwestern Illinois Electric Co-Operative between Cave in Rock and Elizabethtown has recently been energized to bring electric service to farmers and others in the area south of Shawneetown. The co-op is now completing the addition of 150 miles of lines which will ultimately provide service for some 500 families in eight counties in southeastern Illinois.

The Illinois Power Company of Decatur recently announced issuance of \$13 million of stock to repay short-term bank loans for construction and to continue its five-year building program. In 1948, when a \$150 million construction program was begun to enable it to generate its own electricity, the company was primarily a distributor, buying approximately 90 percent of its power. By the end of this year, it expects to be generating 90 percent of its power.

The formal opening of the new \$70 million Ridgeland plant of the Commonwealth Edison Company of Chicago was scheduled for early in December. The new station is the first major addition to the company's Chicago system since 1929 and begins operations with one 150,000-kilowatt unit. It is designed for an ultimate capacity of 600,000 kilowatts. The new unit increases the capacity of the Edison system to 2,802,000 kilowatts.

Construction

Construction contracts awarded in October declined to \$75 million, down 7.5 percent from September, but still

13 percent above contract awards last October. All of the decline occurred in nonresidential building and public works and utilities construction. Residential building increased during the month despite the recent housing credit regulations.

Preliminary figures for Chicago indicate that more permits to build houses were issued in October than in any other October in the last 24 years. In the 12 months ended with September, permits were taken out for a total of 16,000 residential units. This number was the largest since 1929 and only a little more than 2,000 units below the figure for that year.

In September and October, the State Department of Health approved plans for improvements in waterworks systems in 48 Illinois communities, including specifications for proposed new systems in Beecher City and Sherrard.

According to a report of the Civil Aeronautics Administration, Illinois will receive \$1.3 million of Federal funds this fiscal year for improvement of 10 airports in the State. The money, which in most instances is to be matched by local or State funds, will be used for improvements at the following airports:

Bloomington	Decatur Municipal	\$30,000
Municipal	Quad City, Moline	200,000
Cairo	Quincy Municipal	30,000
Chicago:	U. of I., Savoy	60,000
O'Hare Field	Capital, Springfield	135,000
Chicago Municipal		160,000
Merrill Meigs Field		35,000

Recent defense contracts awarded in the State included a million dollar contract to the Sundstrand Machine Tool Company at Rockford and two totaling \$300,000 to the Home Manufacturing Company at Decatur. Unclassified war contracts awarded in the Chicago area by late November approximated \$100 million.

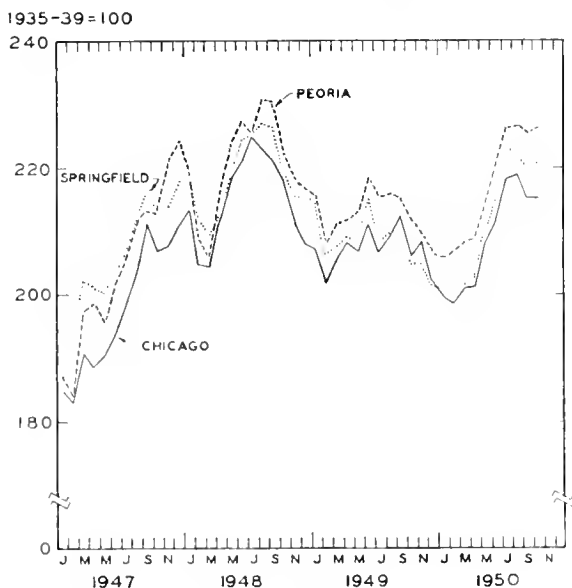
Prices

The retail food price indexes in Chicago, Peoria, and Springfield appear to be diverging, as is shown by the chart on this page. Compared with average prices during the 1935-39 base period, food prices by mid-October were up 126 percent in Peoria, 121 percent in Springfield, and 115 percent in Chicago. Early in the year, the Chicago and Springfield indexes were about equal, but since then food prices in Springfield have risen faster than in Chicago. As yet the three indexes are still below their all-time highs reached in July and August, 1948.

The Chicago composite index of consumers' prices reached a new high in mid-October, advancing 0.3 percent from September 15 to reach 180.4 percent of its 1935-39 average on October 15. Price increases occurred in all principal groups of commodities except foods, which held steady. The fact that the U. S. index on October 15 was only 174.8 shows that, since the 1935-39 base period, prices of consumer goods in Chicago have advanced more than in other large cities generally. (This, however, does not necessarily indicate that prices are higher in Chicago than in other large cities since Chicago prices may have been lower in the base period.)

Illinois farmers received lower prices for most of their products in mid-October than a month earlier. The index of prices received by Illinois farmers on October 15 was 266 percent, down 3 percent from mid-September. Meanwhile the prices farmers had to pay for products increased slightly, causing the State parity ratio to decline from 105 in September to 102 in October.

RETAIL FOOD PRICES



Source: Bureau of Labor Statistics.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

October, 1950

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS							
ILLINOIS		\$44,265 ^a	822,079 ^a	\$492,170 ^a		\$10,347 ^a	\$11,473 ^a
Percentage Change from	{ Sept., 1950	+79.6	+3.8	+0.6	-2.0	+2.2	+3.8
	{ Oct., 1949	+59.0	+18.6	n.a.	+3.6	+25.0	+3.2
NORTHERN ILLINOIS							
Chicago							
Chicago		\$36,941	651,655	\$362,205		\$9,360	\$10,067
Percentage Change from	{ Sept., 1950	+116.3	+3.8	+1.4	-0.9	+1.9	+2.7
	{ Oct., 1949	+71.9	+18.3	n.a.	+4.3	+26.1	+2.4
Aurora							
Aurora		\$ 240	n.a.	\$6,643		\$ 40	\$ 81
Percentage Change from	{ Sept., 1950	-25.0		-1.0	-7.7	-1.2	+7.3
	{ Oct., 1949	-39.2		n.a.	+3.2	+18.0	+6.8
Elgin							
Elgin		\$ 333	n.a.	\$5,009		\$ 26	\$ 74
Percentage Change from	{ Sept., 1950	+109.4		-4.0	-7.3	-3.9	-0.5
	{ Oct., 1949	-66.5		n.a.	+5.7	+16.4	+2.3
Joliet							
Joliet		\$ 713	n.a.	\$8,754		\$ 46	\$ 53
Percentage Change from	{ Sept., 1950	+59.2		-2.6	-4.6	-0.7	-5.6
	{ Oct., 1949	+86.2		n.a.	+5.4	+28.2	-21.1
Kankakee							
Kankakee		\$ 249	n.a.	\$4,497		n.a.	\$ 33
Percentage Change from	{ Sept., 1950	+149.0		-4.1	-5.3		+18.2
	{ Oct., 1949	+111.0		n.a.	+8.4		+27.5
Rock Island-Moline							
Rock Island-Moline		\$ 811	14,701	\$9,176		\$ 31 ^b	\$ 142
Percentage Change from	{ Sept., 1950	+2.5	+2.3	+3.9	n.a.	-10.7	+6.1
	{ Oct., 1949	-11.2	+15.3	n.a.		+7.8	+21.0
Rockford							
Rockford		\$ 722	24,834	\$14,400		\$ 113	\$ 147
Percentage Change from	{ Sept., 1950	-35.9	+6.4	-0.3	-2.2	-1.8	+4.2
	{ Oct., 1949	+59.3	+27.8	n.a.	+4.4	+29.0	+6.9
CENTRAL ILLINOIS							
Bloomington							
Bloomington		\$ 340	4,830	\$5,281		\$ 50	\$ 87
Percentage Change from	{ Sept., 1950	+21.4	+6.5	+0.9	n.a.	+9.6	+42.1
	{ Oct., 1949	-38.3	+30.0	n.a.		+12.8	+16.1
Champaign-Urbana							
Champaign-Urbana		\$ 211	7,088	\$7,040		\$ 54	\$ 88
Percentage Change from	{ Sept., 1950	-33.6	+15.0	+5.8	n.a.	+19.2	+41.5
	{ Oct., 1949	-5.0	+18.6	n.a.		+10.7	+19.8
Danville							
Danville		\$ 111	6,599	\$5,640		\$ 35	\$ 51
Percentage Change from	{ Sept., 1950	-60.4	-5.1	-1.3	-10.2	-6.1	+13.4
	{ Oct., 1949	-2.6	+8.0	n.a.	-7.2	+3.9	+2.3
Decatur							
Decatur		\$ 669	17,674	\$9,212		\$ 103	\$ 81
Percentage Change from	{ Sept., 1950	+263.6	+7.8	+0.3	-13.9	+38.9	+9.2
	{ Oct., 1949	+87.9	+41.1	n.a.	-14.5	+7.2	+9.6
Galesburg							
Galesburg		\$ 621	4,909	\$3,898		n.a.	\$ 29
Percentage Change from	{ Sept., 1950	+491.4	+6.2	-3.0	n.a.		+19.9
	{ Oct., 1949	+194.3	+21.7	n.a.			+13.9
Peoria							
Peoria		\$ 645	44,535 ^c	\$16,628 ^c		\$ 205	\$ 174
Percentage Change from	{ Sept., 1950	-31.5	+1.6	-2.7	-1.9	+2.9	+9.1
	{ Oct., 1949	+25.7	+18.4	n.a.	+2.0	+13.5	+5.6
Quincy							
Quincy		\$ 403	n.a.	\$4,603		\$ 34	\$ 76
Percentage Change from	{ Sept., 1950	-74.3		-6.1	-5.0	+9.3	+42.4
	{ Oct., 1949	+391.5		n.a.	0.0	+10.5	+22.3
Springfield							
Springfield		\$ 571	20,202 ^c	\$13,006		\$ 85	\$ 181
Percentage Change from	{ Sept., 1950	+14.0	+0.7	+3.0	-8.6	+0.3	+9.1
	{ Oct., 1949	+71.0	+7.4	n.a.	+1.9	+16.5	+7.1
SOUTHERN ILLINOIS							
East St. Louis							
East St. Louis		\$ 267	9,922	\$8,310		\$ 139	\$ 49
Percentage Change from	{ Sept., 1950	+96.3	+6.4	-9.3	n.a.	+10.4	+7.7
	{ Oct., 1949	+14.6	+17.5	n.a.		+17.8	+21.8
Alton							
Alton		\$ 279	11,135	\$4,232		\$ 27	\$ 23
Percentage Change from	{ Sept., 1950	+50.0	+7.0	-8.6	n.a.	+1.2	+1.1
	{ Oct., 1949	+65.1	+22.9	n.a.		+17.1	-2.3
Belleville							
Belleville		\$ 139	3,996	\$3,637		n.a.	\$ 34
Percentage Change from	{ Sept., 1950	+11.2	-9.3	-13.9	n.a.		+22.7
	{ Oct., 1949	-24.0	+11.0	n.a.			+19.3

Sources: ¹U. S. Bureau of Labor Statistics. Data include Federal construction projects. ²Local power companies. ³Illinois Department of Revenue. Data are for September, 1950, the most recent available. Comparisons relate to August, 1950. ⁴Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵Local post office reports.

^a Total for cities listed.

^b Moline only.

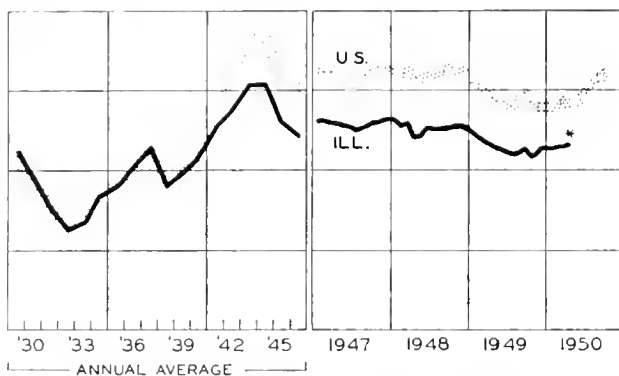
^c Includes immediately surrounding territory.

n.a. Not available.

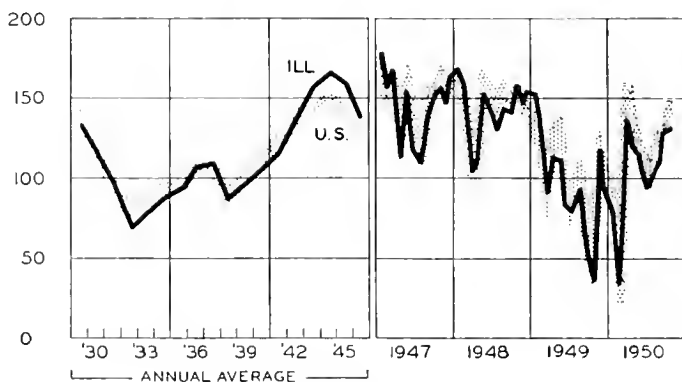
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

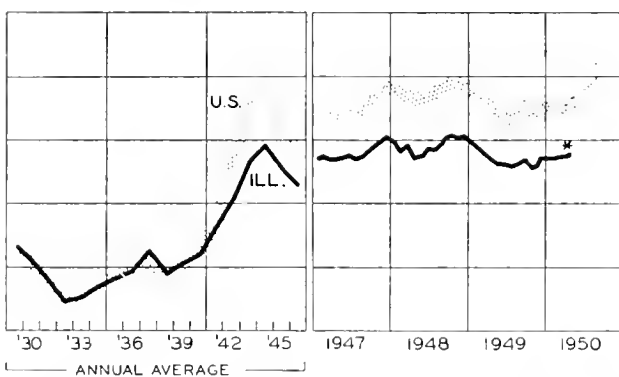
EMPLOYMENT-MANUFACTURING



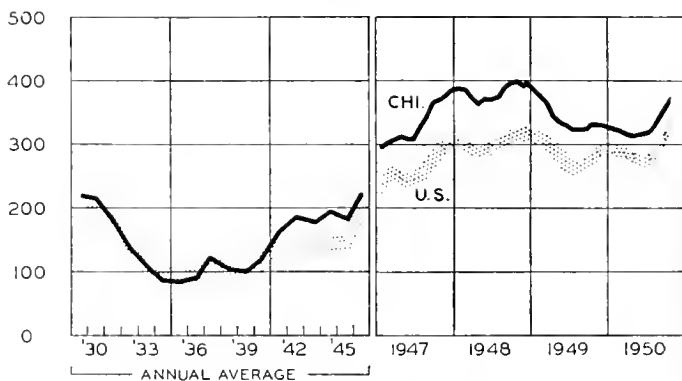
COAL PRODUCTION



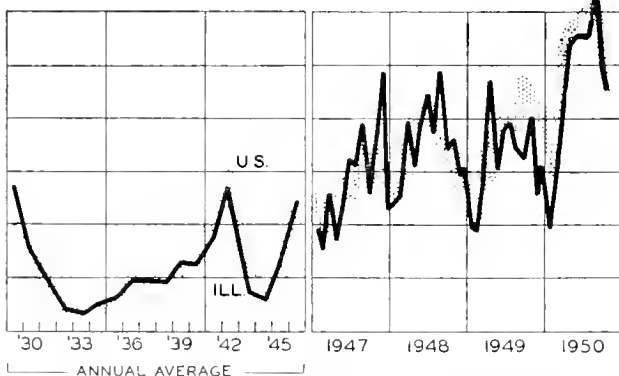
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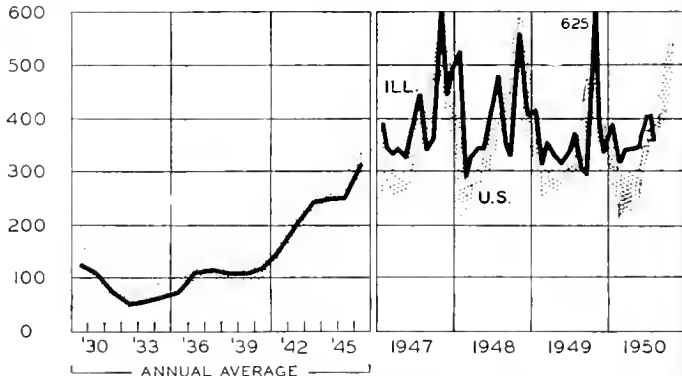
BUSINESS LOANS



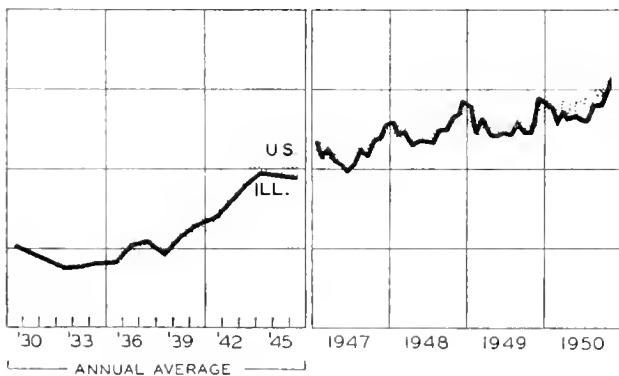
CONSTRUCTION CONTRACTS AWARDED



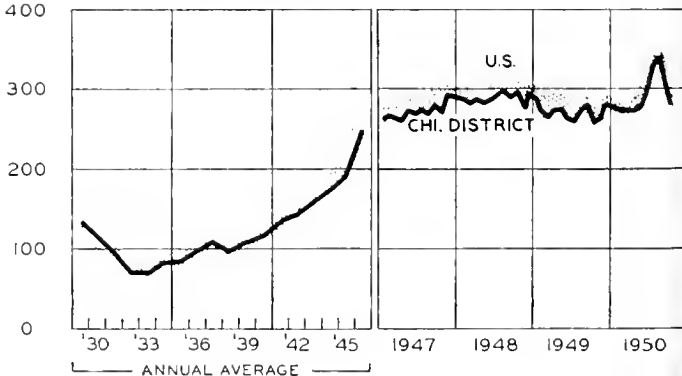
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



* Illinois figures being revised.

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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NUMBER 1

HIGHLIGHTS OF BUSINESS IN DECEMBER

The "inflation" problem came increasingly to the fore as December wore on. With the Bureau of Labor Statistics wholesale price index advancing to successively higher peaks each week of the month and the consumers' price index reaching a new high, the government stepped in with a view to "holding the line." First action was a mandatory order rolling back auto prices to the December 1 level. All other industries were asked to maintain December 1 ceilings voluntarily, except as their profits had fallen below the 1946-49 average. Additional mandatory controls are expected soon.

The rapid rise of business loans, up 30 percent during 1950, brought further action in the form of a Federal Reserve order increasing the reserve requirements of member banks by two percentage points. The effect of the order is to raise the required reserves of member banks by about \$2 billion which, according to the working of the reserve bank system, might otherwise be the basis for as much as \$12 billion of additional credit.

Production Maintains Record Level

Despite government limitations on materials going into the manufacture of such products as automobiles and rubber civilian goods, the Federal Reserve index of industrial production in December was expected to be at or above the November level of 215. The machinery industry in particular has been operating at boom levels, as producers' equipment is now in record demand. The industry is now producing at over three times its average rate during 1935-39 and 37 percent above its level at the beginning of 1950. Activity in the aircraft, shipbuilding, and railroad equipment industries was also far above early 1950 levels.

The year 1950 witnessed at least two major production records. Over 8,000,000 cars and trucks and 97 million tons of raw steel were produced in the year, the first time in history either milestone had been passed.

Civilian Employment Down

The withdrawal of 1.3 million workers from the labor force with the end of the crop season led to a decline of almost one million in total civilian employment in December. Unemployment remained unchanged at the November level of 2.2 million.

The composition of the labor force in December dif-

fered considerably from that of a year ago. The big jump has taken place in nonfarm employment, as 2.3 million additional workers have entered factories and trades to meet the needs of the defense program. Whereas the main concern in December, 1949, was to find jobs for the 3.5 million then unemployed, the main problem today is to find workers for unfilled jobs.

Capital Outlays Head for Peak

If American business, exclusive of agriculture, is able to carry out the intentions expressed in a special survey conducted by the Department of Commerce and the Securities and Exchange Commission, capital expenditures in 1951 should be the highest on record. The projected \$21.9 billion expansion program would be one-fifth higher than the estimated outlays for 1950 and 14 percent above the peak outlays of 1948. There is some question, however, whether this expansion will actually take place, in view of the developing shortages in manpower and materials.

Over 70 percent of the planned increase in capital expenditures for 1951 over 1950 would be made by manufacturing firms, which would then account for almost half of the total outlays. The iron and steel industry plans to nearly double its capital expenditures in 1951, and substantial additions are also planned by the chemical industry. Railroads and mining companies expect to increase their outlays by one-fifth, while transportation companies other than railroads plan to spend 40 percent more in 1951 than in 1950.

Manufacturers' Backlogs Continue to Rise

New orders placed with manufacturers in November declined seasonally from the October level of \$24.5 billion but exceeded sales in the month by about 5 percent. As a result, unfilled orders of manufacturers rose for the seventh month in succession, reaching a new high of \$36.9 billion. As in previous months, durable-goods industries accounted for most of the increase, their backlogs now amounting to five-sixths of the total.

Manufacturers also continued to accumulate inventories during November, to the tune of \$1.2 billion. Part of the increase simply reflected higher prices, but the volume of goods on hand rose substantially. The book value of manufacturers' inventories now amounts to \$32.6 billion, as compared with \$28.6 billion last year.

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Stabilization Policy

Last month we challenged the validity of demands for stabilization backed only by the label "inflation." The idea that the economy would be seriously injured by another ten or fifteen percent increase in prices and any action based on such an assumption are equally without sound foundation. However, even if full price and wage controls should prove necessary, authority is lacking to make such controls effective. To attempt all-out stabilization on the basis of present legislation may prove costly to the economy and to the war effort itself.

Philosophy of Control

What seems to be needed is a philosophy of control based on a longer perspective than the excitement of the moment. There was once general agreement that controls were undesirable in themselves, and their use was justified only if they made a positive contribution to the common good. There was also acceptance of the lessons of experience, which showed that controls did not work unless they were really needed, were well designed to do an effective job, and were properly timed to prevent disruption when the need for them developed, but not to anticipate needs that might be indefinitely postponed.

There was recognition that the effectiveness of controls depends on cooperation. There is always some resistance to controls, some chiseling or circumvention. When the justification for them is clear, the fringe of violation is small. When they are so generally disregarded and openly violated as was prohibition, they are better abandoned completely.

Today, stabilization action seems to be off on the wrong track. Instead of awaiting the development of program needs, controls are imposed in advance. Instead of preparing the ground by building the organization needed to make controls effective, action is undertaken immediately. Instead of aiming action at the points of basic shortage and pressures, the first price control is on an end product least in need of control, and then "controls" are extended indefinitely to all producers of nonfarm products except those who were not competitive enough to be making substantial profits.

Industrial prices are now "stabilized" at December 1 levels by voluntary action on the request of the Economic Stabilization Administration. This is a pretext of control rather than effective action. The "jaw-bone" approach

has never worked, and it can't be expected to work in this instance. What little it might accomplish is at the expense of the most cooperative members of the community.

More recently, the Administration has announced that it is moving ahead to make the controls mandatory and general as quickly as possible. No doubt this would be advisable if we were already involved in a major war, but too much uncertainty exists in this short-of-war situation—even though the projected military effort is large—to justify and render effective all-out wartime controls. There is no magic or logic in the December 1 price level, though this is being generalized to all industries as the base for controls. This date was a historical accident, blundered into as the result of an emotional reaction against a price increase in a particular industry—the auto industry—in which profits were high. A sound plan for general price control cannot be derived in this way from an isolated incident.

Wage Stabilization

The effects of stabilization policy may be disruptive on the wage front also. Wage stabilization in the auto industry, the only action taken to date, is purely nominal. But legislation requires wage fixing whenever the prices of an industry are put under mandatory ceilings; and a voluntary wage ceiling formula to match the voluntary price ceilings has been promised.

How this will affect labor-management relations in industries operating under contracts with escalator clauses and with improvement factors may be inferred from the problems discussed in the special article on page 8. If prices are put under firm ceilings but wage increases corresponding to cost-of-living increases are permitted in industries which have agreed upon such contracts, profits will be squeezed as the cost of living advances. Under present legislation, the cost of living cannot be prevented from increasing, because there is no authorization to control food prices and rents—items comprising over half the total outlays of the average worker. Organized labor has already made it clear that it will not tolerate either abrogation of contracts by manufacturers whose profits are squeezed, or complete freezing of wages by government edict while the cost of living continues up. Under these circumstances, disputes affecting the war effort, or the stabilization program, or both, are potentially unlimited.

In the period ahead, a primary need will be to avoid disputes and work stoppages, as it was in the years of World War II. For this purpose, some wage flexibility is desirable, and wage controls are needed primarily as a means of preventing chaos in the labor market through competitive wage raising and "pirating" of workers away from essential jobs. Wage differentials were used effectively to move labor into war work. They were, in fact, necessary for that purpose, because we did not have, and do not want, the coercive mechanisms of regimentation which would eliminate the individual's freedom to choose among the jobs available.

Maximum production cannot be obtained without the fullest participation and highest efficiency of the potential working force. Yet policy today does not seem well directed toward that goal. There is an unwillingness to allow the voluntary processes of collective bargaining to operate. Efforts are directed instead toward establishing a wage policy or formula in advance of developments that will define the issues. Too much reliance is placed on prohibiting strikes and other stoppages by injunctions

(Continued on page 6)

COSMETICS: From Luxury to Mass Market

The manufacture of cosmetics is an ancient industry; when it reached America in the early 18th century, colonial belles were using make-up in much the same way as Egyptian women had 6,000 years earlier. A number of small factories were manufacturing cosmetics during the late colonial period, but most of the cosmetics used in this country were imported. The domestic industry was slow to develop, although toilet preparations of all kinds were being used lavishly by both men and women.

The American Indians had made this country's first original contribution to the cosmetic industry. Explorers reported the Indian custom of using grease as a foundation for their war paint to make it easier to remove. Thus, although the Greeks are credited with the invention of cold cream for softening skin, the Indians originated its use as a foundation for make-up.

The next wholly American development in the field was the discovery in 1866 that harmless zinc oxide was an ideal basic ingredient for face powder. Because it was cheap, it greatly widened the market for both powder and rouge. Our next contribution of note was the development of talcum powder, a product that has never gained popularity abroad, although it is heavily consumed in America.

Production Soars After World War I

The manufacture of cosmetics gave no indication that it was to become big business until the twentieth century reaction to Victorian restraint. The big leap in cosmetic production came directly after World War I, when new social and economic conditions made the luxuries of the past the necessities of the present. Beauty shops sprang up all over the country during the Flapper Era, and the United States replaced France as the foremost producer of toilet preparations in the world.

World War II expanded the cosmetic market still further by increasing the number of working women with independent incomes and the spending power of women in general. The year 1946 saw a record \$758 million retail sales of cosmetics, as estimated by the Toilet Goods Association. Sales of perfume, cosmetics, and toilet preparations reached \$770 million in 1949 and the Association estimates that sales hit a new high in 1950, with an additional \$300 million spent on beauty service in thousands of shops and salons.

Illinois Third in Cosmetic Production

The 1947 Census of Manufactures ranks Illinois third in the manufacture of toilet preparations. The \$35 million Illinois factory value of cosmetic products, 10 percent of the national total, was exceeded only in New Jersey and New York.

Although Illinois was second in number of establishments in the industry with 86 companies, they employed only 2,315 workers and had the lowest average number of workers per firm of the three leading states. This large number of small firms is typical of the industry as a

whole. More than half of the 718 companies in the industry had fewer than 10 employees each and only 62 had more than 100 workers.

Among the well-known cosmetic manufacturers in Illinois are the producers of Campana products at Batavia, and the Chicago Division of Lever Brothers, which makes toothpaste and powder, shaving cream, shampoo, and home permanents. Wrisley, Chen Yu, Maybelline, Princess Pat, Toni, and Lady Esther products are also made in Chicago, as are Dana and Lucien Lelong perfumes.

Hinds Honey and Almond Cream and Pebecco toothpaste are among the products made at the Lincoln plant of Lehn and Fink, an outstanding firm in the industry. Large retailers manufacturing their own cosmetics in the Chicago area include Marshall Field and Company, Spiegel, Sears and Roebuck, and Walgreen.

No Longer a Luxury Line

There seems to be no end to the variations that cosmeticians can achieve to satisfy their mass market, and the array of modern cosmetics is remarkable. During the cosmetic boom in 1946, American women bought 5,000 tons of lipstick, 190 million individual tubes. There are innumerable brands of face powder and as many variations of yesterday's all-purpose cold cream as manufacturers have been able to think up labels for.

Perfumes, toilet waters, and colognes made up about 12 percent of the total value of toiletries produced in 1947. They were also widely used in the manufacture of cosmetic products, almost all of which are scented. Since a perfumer can devise more than 479 million different combinations of scents with only a dozen natural odors, they are made in even greater variety than cosmetics. Most perfumes produced today are simulated products made from coal tars. They may be composed of a mixture of synthetic reproductions of flower scents and natural constituents, but many are completely synthetic and resemble nothing found in nature.

Because of the innumerable possible variations of its products, the cosmetic industry is keenly competitive. The retail price of a run-of-the-mill cosmetic product is roughly six times the manufacturer's cost, leaving firms a wide margin to spend on selling and reselling changeable feminine consumers. Sales are highly dependent on advertising and promotion and the industry ranks second in its volume of national advertising, although the value of its products is far down on the list.

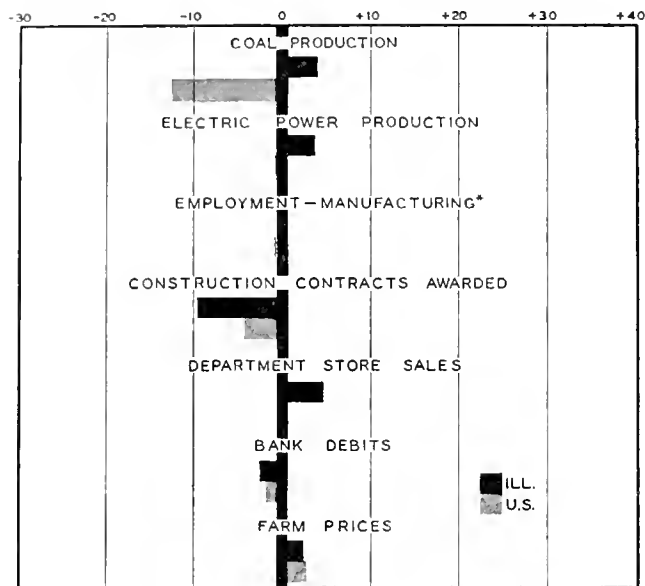
The cosmetic industry used to be considered primarily a luxury field and sales tended to reflect changes in disposable income; however, retail sales of cosmetics have fluctuated less since 1929 than retail sales of food, usually considered a most stable line. Sales of toilet preparations between 1945 and 1949 claimed a larger share of disposable income than ever before, reflecting the almost universal acceptance of cosmetics as an essential part of the American standard of living.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes October, 1950, to November, 1950



* Figure for Illinois not available.

ILLINOIS BUSINESS INDEXES

Item	November 1950 (1935-39 = 100)	Percentage Change from	
		October 1950	Nov. 1949
Electric power ¹	219.2	+3.9	+20.4
Coal production ²	140.9	+4.0	+18.0
Employment—manufacturing ³	n.a.	.....	.....
Payrolls—manufacturing ³	n.a.	.....	.....
Dept. store sales in Chicago ⁴	239.7 ^a	+4.5	+ 8.1
Consumer prices in Chicago ⁵	180.6	+0.1	+ 3.0
Construction contracts awarded ⁶	411.5	-9.3	+60.0
Bank debits ⁷	323.7	-2.5	+21.7
Farm prices ⁸	245.0	+2.6	+19.7
Life insurance sales (ordinary) ⁹	194.7	-3.4	+11.1
Petroleum production ¹⁰	231.1	-5.7	- 4.0

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Repts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.
^a Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	November 1950	Percentage Change from	
		October 1950	Nov. 1949
	Annual rate in billion \$		
Personal income ¹	231.9 ^a	+ 0.3	+12.7
Manufacturing ¹			
Sales	254.4 ^a	+ 1.0	+30.9
Inventories	32.7 ^{a, b}	+ 3.5	+13.9
New construction activity ^{1*}			
Private residential	13.5	- 9.0	+34.5
Private nonresidential	9.1	- 1.3	+17.3
Total public	8.0	-10.1	+19.5
Foreign trade ¹			
Merchandise exports	11.7	+ 8.2	+16.3
Merchandise imports	10.2	- 7.6	+43.7
Excess of exports	1.5	.....	.....
Consumer credit outstanding ²			
Total credit	19.4 ^b	+ 0.1	+ 9.0
Installment credit	13.3 ^b	- 0.6	+27.6
Business loans ²	16.9 ^b	+ 4.1	+23.3
Cash farm income ³	39.6	- 8.0	+14.0
	Indexes (1935-39 =100)		
Industrial production ²			
Combined index	215 ^a	- 0.9	+24.3
Durable manufactures	260 ^a	- 0.8	+43.6
Nondurable manufactures	195 ^a	- 0.5	+10.2
Minerals	162 ^a	- 2.4	+14.9
Manufacturing employment ⁴			
Production workers	164	- 0.3	+15.4
Factory worker earnings ⁴			
Average hours worked	109	- 0.5	+ 5.1
Average hourly earnings	252	+ 0.6	+ 8.5
Average weekly earnings	277	+ 0.1	+14.0
Construction contracts awarded ⁵	460	- 4.3	+13.5
Department store sales ²	291 ^a	0.0	+ 4.7
Consumers' price index ⁴	176	+ 0.7	+ 4.4
Wholesale prices ⁴			
All commodities	213	+ 1.5	+13.2
Farm products	242	+ 3.3	+17.1
Foods	222	+ 1.6	+10.3
Other	201	+ 1.2	+12.8
Farm prices ³			
Received by farmers	258	+ 3.0	+16.5
Paid by farmers	210	+ 0.8	+ 7.3
Parity ratio	105 ^c	+ 1.9	+ 8.2

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b As of end of month. ^c Based on official indexes, 1910-14 = 100. * Data revised; not comparable with figures in previous issues.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1950					1949
	Dec. 30	Dec. 23	Dec. 16	Dec. 9	Dec. 2	Dec. 31
Production:						
Bituminous coal (daily avg.).....	1,820	1,838	2,001	1,903	1,554	1,328
Electric power by utilities.....	6,479	7,033	6,985	6,909	6,716	5,493
Motor vehicles (Wards).....	127.0	152.7	164.3	154.7	147.3	106.7
Petroleum (daily avg.).....	5,691	5,685	5,646	5,678	5,749	4,933
Steel.....	216.3	217.8	218.9	217.1	176.5	192.3
Freight carloadings.....	602	747	773	767	740	496
Department store sales.....	237	639	638	554	444	197
Commodity prices, wholesale:						
All commodities.....	176.0	174.7	173.6	172.7	171.7	151.2
Other than farm products and foods.....	165.9	165.2	164.5	163.4	162.8	145.6
28 commodities.....	367.6	363.0	356.0	354.7	346.8	247.7
Finance:						
Business loans.....	17,839	17,801	17,461	17,261	17,097	13,904
Failures, industrial and commercial.....	125	174	150	170	160	109

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Continues High

Following the brief slump caused by late November's severe storms, production picked up again in December and was expected by the Federal Reserve Board to equal or exceed the November level of 215 percent of the 1935-39 base. Steel production was scheduled above the rated capacity level throughout the month, with weekly production averaging 1,940,000 net tons of ingots and castings. As shown in the accompanying chart, high steel production since April has consistently surpassed the wartime monthly record of 7,826,000 tons. Output of ingots and castings for 1950 is estimated at 97 million tons, about 8 percent over the previous high set in 1944. Despite the record level, however, steel users are finding the pinch increasingly tight, and it is reported that short supplies are forcing more general production cutbacks.

Automotive production increased over November, rising to a weekly average of 145,000-150,000 vehicles; this level remained substantially below previous highs. Model change-overs were less significant as a limiting factor, but supply shortages, especially of steel, were becoming increasingly important. By the end of the month, General Motors, Packard, Ford, and Studebaker had announced plans for production cuts.

Credit Volume Leveling Off

The volume of credit continued to rise in November, though at a somewhat slower rate than in previous months. The increase of \$11 million in consumer credit from the end of October to the end of November was relatively small in view of the season, and as compared with the \$300 million monthly spurts earlier this year. It therefore appears that FRB controls are taking effect. Installment credit, chief factor in earlier increases, actually fell fractionally during the month to \$13.3 billion, a large part of the drop reflecting less extensive use of

credit for automobile buying; this was the first November decline since 1943. Increases in non-installment credit buying, mainly charge accounts and single-payment loans, a little more than offset the declines in installment credit and carried total consumer credit outstanding to a total of \$19.4 billion.

Bank loans to business borrowers rose sharply again from November 29 to December 27 by \$742 million to a total of \$17.8 billion. Weekly increases ranged as high as \$340 million (in the week preceding Christmas). Most of the loans appear to have been used to carry inventories, especially in agricultural commodities such as cotton, but some have been used for other purposes.

Nonfarm Employment Rises Again

An additional 350,000 workers moved into nonagricultural employment between early November and early December, raising total nonfarm employment to 54,075,000. Part of the pick-up may have been seasonal, as more temporary workers were hired, especially by retailers, to take care of the Christmas rush, but the prospect for finding additional permanent workers is still not encouraging. Farm employment was down seasonally, as 1,300,000 workers left the farm labor group; most of them also left the labor force, which declined by nearly one million. Unemployment showed virtually no change. Bureau of Census data, in thousands of workers, are as follows:

	December 1950	November 1950	December 1949
Civilian labor force	62,538	63,512	62,045
Employment	60,308	61,271	58,556
Agricultural	6,234	7,551	6,773
Nonagricultural	54,075	53,721	51,783
Unemployment	2,229	2,240	3,489

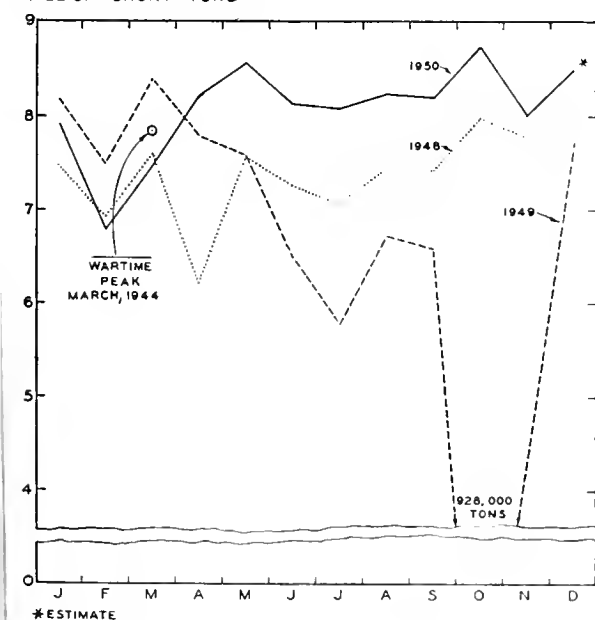
What the Census aggregates fail to show is that the mobilization effort has reached a point where employment appears to be moving in several different directions. In a few major industrial areas, such as Detroit, there is the paradox of large-scale layoffs (as conservation orders for scarce materials cut into supplies of materials and hence into output) and shortages of skilled laborers and professional people. These spot surpluses and spot shortages are expected to continue to exist side by side for perhaps another six months as defense preparation advances through the various steps from planning to production.

The main problem, however, will be that of obtaining more manpower. One method which will doubtless be used is that of lengthening the work week. In November the average manufacturing work week, at 41.1 hours, was more than half an hour longer than it was last June, but was 4.5 hours under the wartime peak, reached in December, 1944, of 45.6 hours. Durable goods manufacturing employees, working 41.8 hours a week in November, 0.5 of an hour longer than before the outbreak in Korea, were still well under the wartime peak of 47.2 hours. Workers in nondurables manufacturing, with a November work week averaging 40.2 hours, 0.7 hours over June, were much nearer their wartime high of 43.5 hours.

Prices Up Generally

Again in December, both wholesale and retail prices were up and in important groups of commodities the increases were greater than in October and November. Prices at wholesale for 28 sensitive commodities rose nearly 6 percent during December to 367.6 (August,

STEEL PRODUCTION: INGOTS AND CASTINGS
MILLION SHORT TONS



Source: American Iron and Steel Institute.

1939 = 100), and by the end of the month were higher than the former peak set at the end of 1947.

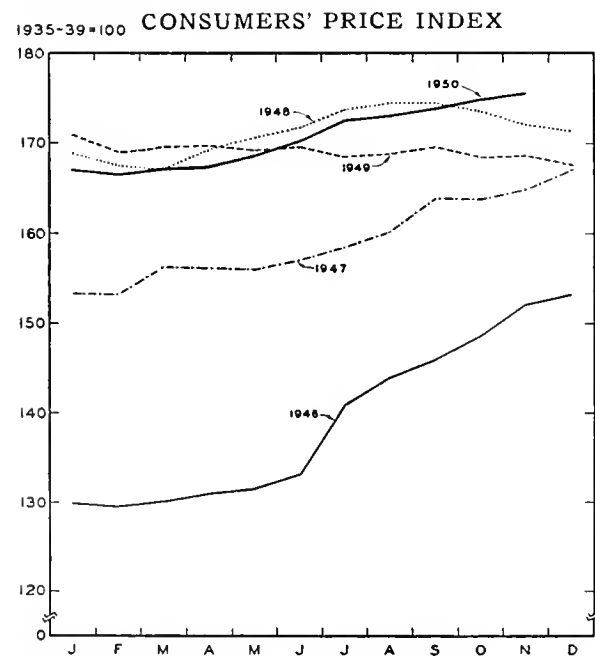
Wholesale prices in general rose less sharply but were up 2.9 percent to 176.7 (1926 = 100), a new peak, in the five-week period ending January 2. The main rise, 2.6 percent, was in commodities other than farm products and foods, and largely reflected increases of 3 to 4 percent in metals and metal products, textiles, and chemicals. Farm products and foods, up 2.2 percent each to 189.7 and 182.2, respectively, were both within 5 percent of their postwar highs.

Prices received by farmers increased substantially from mid-November to mid-December, rising from 276 to 286 (1910-14 = 100). An upward spurt in egg prices was the chief factor, but prices for a number of field crops also rose. Prices paid likewise increased, but less sharply from 263 to 265. As a result, the parity ratio rose to 108, the highest level since September, 1948.

Reflecting the upward movement in wholesale prices, the consumers' price index rose fractionally from mid-October to mid-November, to 175.6 (1935-39 = 100). As illustrated by the chart, prices have crept steadily upward since last February and have now taken the index above the previous record of 1948, the November index exceeding that level by 0.6 percent. Once again apparel (up 0.8 percent from mid-October) and housefurnishings (up 1.3 percent) were the chief factors. Food prices rose only 0.2 percent, the same as in the previous month. Since retail price changes customarily lag several months behind wholesale prices, the full effects of the recent advances in wholesale prices have not yet been felt at the retail level.

Capital Expenditures Expand

The latest survey conducted by the Securities and Exchange Commission and the Department of Commerce indicates capital outlays of more than \$5.4 billion by American nonfarm business during the fourth quarter of 1950, nearly half of which was to have been spent by manufacturing industries. Total investment for 1950 was expected to reach \$18.1 billion, the same as in 1949, and about \$1 billion below peak 1948. By and large, plant expenditures increased more than those for equipment.



Source: U. S. Bureau of Labor Statistics.

Anticipated programs for 1951 are much larger than those for any previous year, but may be subject to dislocation and cuts caused by materials shortages. For the year, programs as now estimated will reach nearly \$22 billion; manufacturing concerns are planning to raise their outlays on plant and equipment by about one-third and will continue to spend almost as much as all other industries combined. Total expenditures for the first quarter alone are estimated at \$4.8 billion, with nearly all groups showing slight seasonal declines from the fourth quarter of 1950.

A good bit of the plant expansion planned for future months is accounted for by projected enlargement of steel capacity and, to a lesser extent, of capacity for aluminum production. About 25 steel companies have so far obtained "certificates of necessity" from the National Security Resources Board for rapid amortization of near-future investments planned to raise steel-producing capacity by several million tons annually.

Stabilization Policy

(Continued from page 2)

and penalties. Instead of settling disputes, such an approach can only increase and aggravate them.

The cumbersome mechanisms of emergency dispute settlement in the Taft-Hartley Act combine with the inadequacies of stabilization policy to hold out a prospect of potentially explosive disruption of production. We cannot afford the waste of time and effort involved in extended waiting periods, worker elections, court actions, and other delaying mechanisms. There will be a pressing need for quick decisions based on an impartial and acceptable determination of the disputed issues. This implies a system involving a high degree of private agreement through voluntary action—albeit one requiring also the consent and approval of the government. Here, again, changes in legislation are needed. A new mechanism for the handling of disputes should be developed as quickly as possible, and in this respect the experience of the last war suggests ready means of improvement.

The Tempo of Stabilization

For the future, it would seem desirable to direct domestic control action toward meeting emergencies rather than inadvertently creating them. This cannot be done unless it is recognized that reversals on the battle front have no direct relationship to the operations of the economy. Military reverses have no immediate counterpart in economic action. We have to live with uncertainty in international affairs, but we do not have to carry its persisting tensions and temporary aggravations over into our daily lives.

On the economic front, developments necessarily follow a different pattern of timing. They appear not as the result of specific battles, or of speeches and declarations, but rather in the working out of slower-acting economic forces. Actions appropriate to controlling these forces should be taken when appropriate, not when war news has stirred up excitement.

President Truman has indicated that he will request legislation to correct deficiencies in our stabilization machinery. It may be hoped that Congress will put aside considerations of factional or class interests in passing such legislation, and that the Administration will apply its power effectively toward achieving substantive results rather than temporary tactical advantages.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Advances in Carbide Tooling

Improved high-speed metal-cutting practices are rapidly replacing many of the production methods of the last war. The Carboloy company, Detroit, recently revealed several advances in carbide tooling which make possible the machining of the harder alloys used in present war materials that softer tools will not cut. Since some of the new carbide tools last as much as 20 times the life of those used in former defense manufacturing, carbide tools will go far in solving high-production machining problems. The greatest field for their expanding use is in machining heat-resistant alloys for new types of aircraft engines and latest ordnance devices.

Bright-Dipped Aluminum

An economical and direct process for brightening aluminum has been developed by the Kaiser Aluminum and Chemical Corporation. Called Bright Dip, the process enhances the appearance of all aluminum alloys and is particularly effective on high purity aluminum. As much as 90 square feet of aluminum surface have been processed per gallon of the solution, which is a low acid concentration bath with an unusually long life. Its chief uses are expected to be brightening mill-finish sheet and articles for anodizing and dyeing; increasing total reflectivity of buffed articles; and brightening articles without buffing.

Western Union Expansion

The capacity of the Western Union telegraph system has been doubled by a \$90 million mechanization program of plant improvements. It now provides fully automatic transmission of messages throughout the country and abroad, as well as greatly increased speed and efficiency. Widespread installation of a miniature facsimile machine is bringing telegraph service directly to the user's desk. Other types of facsimile machines have been developed for use in hotels, apartment houses, and residential areas.

Transit Advertising

The National Association of Transportation Advertising, Inc. (30 Rockefeller Plaza, New York 20, New York) has published a *Transit Advertising Guide* describing this mass medium, which is said to cost only 5¢ for every 1,000 riders. The advertiser can aim at readers in a particular city or section of a city with carcards in subways, buses, and streetcars, traveling displays on the outside of buses and street cars, and posters at railway stations in big cities. Also available is a booklet on *Copy, Design, and Production for Transportation Advertising*.

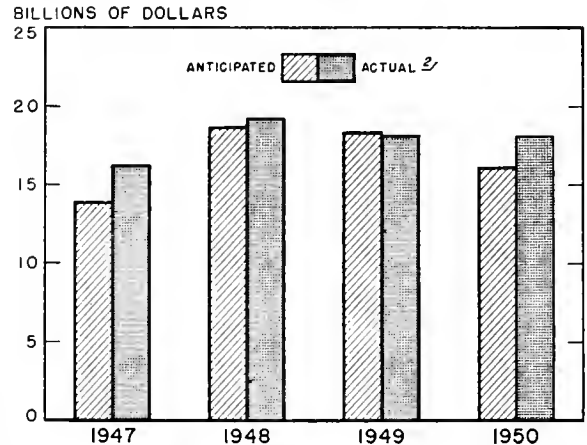
Carbon Control

A new development that makes it possible to measure and control the carbon potential of furnace atmospheres directly in terms of per-cent carbon has been announced by the Leeds and Northrup Company, Philadelphia. A detecting element projects into the furnace work chamber like a thermocouple and is said to electrically "sense" the carbonizing potential of the furnace atmosphere and automatically regulate the surface carbon content of steel during heat treatment.

Predicting Capital Outlays

"Business Investment Programs and Their Realization" is the title of an article in the December issue of the *Survey of Current Business*, appraising the accuracy with which businessmen anticipate their capital outlays. Investment in plant and equipment is one of the most widely used economic barometers because of the close correspondence of capital outlays with the movements of general economic activity. Changes in sales and earnings seemed to have only a slight effect on plans for expansion.

ACTUAL AND ANTICIPATED CAPITAL OUTLAYS



Source: *Survey of Current Business*, Dec., 1950, p. 13.

² Fourth quarter 1950 anticipated.

sion within the year. The largest firms proved to be more accurate than the smallest, and firms projecting large-scale investments (relative to existing assets) did better than those planning minor expenditures. As shown by the chart, the accuracy of predicted totals has varied each year. The errors appear small in 1948 and 1949 but large in 1947 and 1950. Aside from the actual errors in forecasting, the 16 percent deviation in 1947 was attributed largely to the unanticipated easing of supplies and the elimination of restrictions on nonresidential construction. The unexpected outbreak of war in Korea was blamed by analysts for the 12 percent discrepancy in predictions for 1950.

Micro-Barometer

A new super-sensitive aneroid barometer made by the American Paulin System Company of Los Angeles offers immediate readings without the necessity of corrections for temperature or latitude, accurate to 1/1000 inch of mercury. It is expected to find important use for industrial and military purposes wherever reliable indications of minute changes in air pressure are required.

Selling Abroad

Firms considering exporting will be interested in a booklet entitled "How to Sell More Abroad," offered free by the Foreign Trade Guild (11 West 42nd Street, New York City). The Guild recently announced a new foreign trade advisory service which has correspondents located in more than 20 foreign countries for the analysis of export business.

WAGES AND WAGE STABILIZATION

MORRIS A. HOROWITZ, Research Assistant Professor, and
SOLOMON B. LEVINE, Research Associate, Institute of Labor and Industrial Relations

Since the outbreak of the Korean conflict, in June, 1950, the emphasis in negotiating labor contracts has shifted markedly. During 1949 and the early months of 1950 the Bureau of Labor Statistics consumers' price index remained relatively stable, thereby eliminating the unions' principal argument for higher wage rates. The unions, therefore, stressed pension and welfare demands in lieu of increased wage rates.

Recent Wage Developments

After the start of the Korean situation, and particularly after the unexpected reversals of the UN forces in November, the need for immediate wage increases plus assurances of further advances was stressed by unions. Attempts by unions to attain their demands were generally successful. The type of agreement widely followed was that concluded by General Motors and the United Automobile Workers union in May, 1948, and renewed in May, 1950. The contract provided annual wage increases for raising the standard of living of the employees, commonly called the annual improvement factor. This annual improvement factor was based on the trend of the average over-all national increase in productivity. In addition, a cost-of-living allowance provision—the escalator clause—was included, calling for quarterly adjustment of wages based on changes in the consumers' price index.

No major manufacturing companies followed these novel provisions of the 1948 GM contract during the first two years of its existence. On May 29, 1950, a new agreement between GM and UAW went into effect, to continue for a five-year term with no provision for reopening on wages or other matters. This new agreement carried forward the two basic principles underlying the wage provisions of the 1948 contract. No change was made in the cost-of-living escalator clause, but the annual improvement factor was increased from three to four cents an hour.

The new pattern that has emerged since last June is largely based upon the provisions of the GM contract. Most major auto manufacturers quickly accepted the GM-type agreement. Companies in electrical products, machinery, chemicals, and textiles have followed suit.

In addition to the many settlements calling for periodic increases during the term of the contract, a number of companies voluntarily granted wage advances, soon after the Korean war began, without the formality of a wage reopening. One of the first such instances was a 10-cent an hour increase offered by the Chrysler Corporation late in August, 1950, which was immediately accepted by the union. The Aluminum Corporation of America also voluntarily offered a wage increase, amounting to 10 percent. This development set off a wave of union requests, which were generally granted, for wage increases in advance of the dates specified for wage reopening in the contracts.

Why the Shift?

The possibility of cost-of-living rises and governmental wage controls following the outbreak of hostilities in Korea prompted many union leaders to press for contract provisions similar to those existing in the GM agreement. And, in turn, fear of manpower shortages and

disrupted labor relations motivated managements to accept such agreements. These contracts are generally of long-term duration, generally 3 to 5 years, reflecting the basic desires of management and labor for a period of stable relations.

The shift in emphasis from social security benefits to provisions for increases in workers' earnings was partly a reflection of the expectation of rapidly rising living costs. The fear was partly substantiated by the fact that the consumers' price index did rise in July by 2.3 points over June. In addition, this July level represented a quarterly increase over April of 5.2 points, giving the workers under the GM contract a 5-cent per hour increase on September 1. This GM increase was an added spur to other unions to seek similar benefits through an automatic escalator clause. The anticipated rapid increases in the cost of living, similar to that experienced between June and July, have not materialized as yet; between July and November the monthly rise in the consumers' price index was one point or less, and the total rise in this four-month period was 3.1 points, or less than 2 percent. However, food prices have again moved upward noticeably, exerting pressure for further rises in the over-all index.

The demands for immediate and future wage advances soon after the Korean outbreak were also based upon anticipation of wage controls. These were crystallized by the enactment of the Defense Production Act in September, even though it was not until December that any concrete action was taken by the newly-formed Economic Stabilization Administration.

Under the Defense Production Act of 1950, whenever the Economic Stabilization Administration imposes controls on prices in a particular industry, the wages of that industry must also be stabilized. The first of such moves came on December 21, when the Administrator ordered a freeze in the wage rates of those workers making passenger cars, following its order to roll back auto prices to December 1. This freeze is to continue the status quo of wages in the industry until March 1, 1951, the date when the next cost-of-living adjustments are due under the GM escalator clause. In the meantime, the Wage Stabilization Board is to consider what policy to follow after the March 1 deadline. The auto wage freeze, it should be noted, is a nominal one, since wages are not due to be reconsidered under the GM contract anyway until March 1.

Is Wage Stabilization Necessary Now?

It may well be asked whether some form of wage stabilization is needed at this time or in the near future. Average weekly earnings in manufacturing industries have increased since the outbreak of the Korean hostilities; the rise between June and October, 1950, was \$3.14, or slightly over 5 percent. During this same period the cost of living, as represented by the consumers' price index, rose by only 2.7 percent, approximately half as fast as gross weekly earnings.

However, it should not be concluded that earnings have kept pace with the upward rise in the cost of living. In the period from June to October, 1950, net spendable earnings, computed by the Bureau of Labor Statistics and roughly comparable with a worker's "take-home" pay,

rose by only 2.2 percent, as against the 2.7 percent rise in the consumers' price index. A worker without dependents, for example, averaged \$51.03 a week in June and \$52.16 in October; but this October figure was less than his net spendable earnings in August and in September. This decline in take-home pay may be attributed largely to the increase in personal income taxes levied early last year. What it indicates is that wage increases have not been the decisive factor behind recent price increases.

CONSUMERS' PRICE AND WEEKLY EARNINGS INDEXES,

April, 1950 = 100

1950	Consumers' Price Index	Gross Average Weekly Earnings	Net Spendable Average Weekly Earnings*
January.....	99.8	98.9	98.9
February.....	99.5	99.0	99.1
March.....	99.8	99.3	99.3
April.....	100.0	100.0	100.0
May.....	100.8	101.1	101.0
June.....	101.7	103.4	103.2
July.....	103.1	104.0	103.8
August.....	103.4	105.9	105.6
September.....	103.9	106.6	106.2
October.....	104.5	108.9	105.4
November.....	105.0	109.0	.....

Source: U. S. Bureau of Labor Statistics.

* Worker with no dependents.

Another factor adding to the pressure for some form of wage stabilization has been the relatively small amount of civilian unemployment, compared with the unemployment existing prior to World War II. The apparent lack of a manpower "cushion" has strengthened the unions' bargaining power in seeking wage increases and management's willingness to meet wage demands in order to maintain their labor forces. However, the most recent available manpower data do not as yet indicate that the nation is scraping the bottom of the manpower barrel.

In December, 1950, the civilian labor force numbered 62.5 million, of whom 2.2 million were listed as unemployed. The lowest amount of unemployment during World War II was 440,000, reached in October, 1944, when the civilian labor force was at a level of 55 million and the total labor force (including the armed services) was 66.7 million. Thus, there are still over 1.5 million unemployed to be absorbed by industry before the low point in unemployment of World War II is reached. In addition, there is the large reserve of woman-power that is still to be tapped for the labor force.

It has been estimated by the Secretary of Labor that the total labor force, including the armed services, can reach 70 million, a rise of approximately 5 million above present levels. Part of the existing reserves will go directly into the armed services, particularly if authorization to draft 18-year-olds is passed by Congress. With the planned expansion in the armed services the margin of unemployment will probably narrow. This tightening of the labor market will then pose a problem; and anticipation of that problem is more significant as a factor pressuring for higher wages than the actual manpower situation at present.

In view of the relatively small rise in the cost of living, the slight rise in net spendable earnings, and the not-quite-tight manpower situation, another factor should

be considered as supporting the argument against immediate wage stabilization. That factor is the peaceful collective bargaining that has been taking place during this emergency period. A principal objective of the government's defense program has been increased production, and there is no better way to obtain the support of such a program from labor and management than to permit both groups to continue to settle their differences through free collective bargaining. When the situation with respect to cost of living, earnings, and manpower changes to the point where the emergency is obvious to both labor and management, the time will then be ripe to establish a wage stabilization program.

Wage Stabilization Problems

Whatever the case for or against immediate wage stabilization, a Wage Stabilization Board is currently in operation. This board has already posed a list of problems which it considers require solution. For hearings starting January 11, industry and union representatives were asked to consider: (1) what policies should be adopted to meet possible wage inequities arising out of the timing of applying stabilization controls; (2) whether cost-of-living provisions, such as escalator clauses, should be permitted to continue without limitations; (3) whether stipulations for future wage increases through wage reopenings, improvement factors, and cost-of-living clauses may be put in force; (4) how to deal with controls on an industry- or area-wide basis that may give rise to alleged inequities or manpower allocation difficulties; (5) how to treat wage adjustments within a plant; (6) whether to allow increases for "substandard" rates of pay; and (7) whether to permit the adoption and continuation of various economic fringe benefits, such as pensions.

Trade unions have begun to declare themselves with respect to wage stabilization policies which they believe should be followed. The newly formed United Labor Policy Committee, composed of AFL, CIO, and Railroad Brotherhood leaders, recently requested that present wage stabilization procedures be revised to permit cost-of-living wage adjustments, wage flexibility, the elimination of substandard rates and wage inequities, sharing of workers in productivity increases, the recognition of existing collective bargaining agreements which assure stability, and the continuation of overtime payments provided under agreements or by the law. John L. Lewis, president of the United Mine Workers, has refused to cooperate with the United Labor Policy Committee, and has contended that there is no need for any wage controls at present. It should be noted here that the United Mine Workers' contract expires on March 31.

What policies will be forthcoming from the Wage Stabilization Board is difficult to predict. Both cost-of-living escalator clauses and annual improvement factor clauses can be justified in that they would not affect the general price level. Assuming an effective price control program on all items of the consumer's budget, there will be relatively little rise in the cost of living, and therefore little or no rise in wages via the escalator provision. Approval of the annual improvement factor can be justified on the ground that such an annual increment is based on increased productivity, and therefore should not result in increased prices. Since the Wage Stabilization Board is a tri-partite body, with public, industry, and labor representatives, all these factors will undoubtedly be considered. A compromise policy is most probable, with approval of either the cost-of-living escalator or the annual improvement factor likely.

LOCAL ILLINOIS DEVELOPMENTS

A continued expansion of the State's economy was reflected in the November gains recorded by most indexes of business activity. Total nonagricultural employment showed little change from the October peak. Total manufacturing employment also held steady, with increases in durable goods counterbalanced by seasonal declines in nondurable goods. Areas reporting relatively large gains in manufacturing employment in the two-month period, September 15-November 15, were Chicago, Peoria-Pekin, Joliet, Elgin, Decatur, and Aurora.

A general tightening of the labor market is reflected in the decreasing number of unemployed persons in most areas. The number of insured unemployed workers (average weekly number of unemployed persons in the State claiming unemployment insurance under both State and Federal programs) has steadily decreased since April, 1950 (see chart), and the usual midsummer seasonal peak was not even evident last year. Since April, the number of insured unemployed workers each month has been less than in the same month of the preceding year, and there were fewer unemployed last fall than in the peak prosperity fall months of 1948.

Power Production

Electric power production in the State set a new record in November, output for the month exceeding the October all-time high by 4 percent. Expansion of electric power production facilities in the State is continuing. A new 65,000-kwh. turbine has been completed at the Grand Tower power station of Central Illinois Public Service Company. The new turbine doubles the capacity of the station and will be used in supplying electricity to 90 southern Illinois communities. A \$285,000 loan to Southeastern Illinois Electric Co-operative for expansion of rural power facilities has been approved by the Rural Electrification Administration.

Construction

Value of construction contracts in November declined seasonally to \$68.4 million, dropping 9 percent below the October figure. A 25 percent decline in nonresidential building contracts was primarily responsible for the overall decrease. Residential contracts declined only 4 percent and public works and utility contracts increased. As compared with November, 1949, contract awards this November were up 60 percent. For the first eleven months of 1950 contract awards were 48 percent greater than in the same period of 1949, primarily because of a jump of 80 percent in residential building contracts.

Building permits issued in 20 Illinois cities in November aggregated \$23.9 million, 46 percent under the October figure. The main reason for the decline was a 55 percent drop in Chicago permits.

The Illinois Central Railroad has announced that it will spend more than \$10.5 million for new freight and passenger equipment. Approximately \$9 million of this sum will be spent for 1,000 new freight cars and 40 switching locomotives. The remaining \$1.5 million will be expended for new twin-unit dining cars and passenger locomotives. The freight cars will be built in the company's Centralia shops and will be 50-ton, 16-door, drop-bottom gondolas, the first of this type to be constructed at the Centralia shops.

Gamble-Skogmo, Inc., a Minneapolis merchandising firm, is constructing a large warehouse on an 18-acre tract north of Monmouth. The warehouse will serve several hundred stores operated by the company in Illinois, Wisconsin, Missouri, and Iowa. Acme Steel Company is planning to build an addition to its Riverdale plant, thus expanding its facilities for producing galvanized strip-
ping, which is used in packaging for shipping overseas.

A grant of \$88,200 has been approved by the Housing and Home Finance Agency for a slum clearance project for Lincoln. The funds are to be made available after the project is completed and are to be used to absorb two-thirds of the deficit between the cost of the clearance project and the sum received from the sale of the cleared site.

The Illinois Commerce Commission has authorized construction of a 13-mile gas pipe line to connect the Illinois Power Company's plant at Centralia with the natural gas line which the Texas Illinois Natural Gas Pipeline Company is building from Texas to Chicago. The Commission also authorized the company to furnish gas to Sandoval, Junction City, and Shattuc. The Texas Pipe Line Company has contracted for the construction of a 56-mile, 10 $\frac{3}{4}$ -inch pipe line to run between Lawrenceville, Illinois, and Mount Vernon, Indiana.

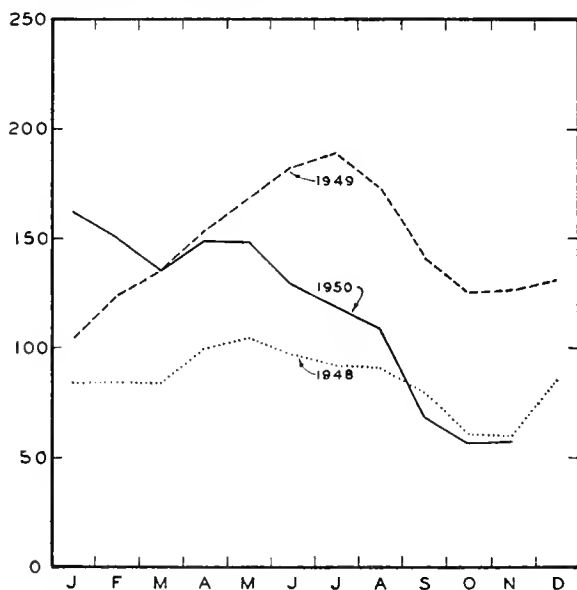
Prices

The Chicago consumers' price index increased 0.1 percent during the month ending November 15 to 180.6 percent of its 1935-39 average. Moderate decreases in food and housefurnishings offset gains in prices of clothing and miscellaneous goods and services.

The index of prices received by Illinois farmers advanced approximately 3 percent from October 15 to November 15, to 245 percent of its 1935-39 average on November 15. As the index of prices paid by farmers rose only 0.8 percent during the same period, the Illinois parity ratio advanced from 102 in October to 104 in November. In November, 1949, it was 93.

INSURED UNEMPLOYED IN ILLINOIS

THOUSANDS OF WORKERS



Source: Division of Unemployment Compensation, Illinois Department of Labor.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

November, 1950

	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS.	\$23,894 ^a	\$130,744 ^a	\$496,702 ^a		\$10,090 ^a	\$13,072 ^a
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{-46.0..... +16.4.....	{+0.9..... n.a.....	{+18.3..... +8.5.....	{-2.5..... +21.7.....	{+13.9..... +0.0.....
NORTHERN ILLINOIS						
Chicago	\$16,729	n.a.	\$366,462		\$9,146	\$11,639
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{-54.7..... +25.5.....	{+1.2..... n.a.....	{+19.0..... +8.1.....	{-2.3..... +21.7.....	{+15.6..... +5.8.....
Aurora	\$ 566	n.a.	\$6,809		\$ 40	\$ 92
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{+135.8..... +180.2.....	{+2.5..... n.a.....	{+17.6..... +17.1.....	{-0.2..... +20.7.....	{+12.6..... +27.6.....
Elgin	\$ 415	n.a.	\$5,118		\$ 27	\$ 102
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{+24.6..... +119.6.....	{+2.2..... n.a.....	{n.a..... n.a.....	{+5.9..... +18.5.....	{+37.3..... +17.1.....
Joliet	\$ 180	n.a.	\$9,088		\$ 45	\$ 76
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{-74.8..... -68.9.....	{+3.8..... n.a.....	{+11.1..... +16.4.....	{-1.3..... +20.9.....	{+41.5..... +35.1.....
Kankakee	\$ 388	n.a.	\$4,264		n.a.	\$ 32
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{+55.8..... +89.3.....	{-5.2..... n.a.....	{+3.8..... +10.5.....	{n.a..... n.a.....	{-3.5..... +7.2.....
Rock Island-Moline	\$1,287	15,919	\$8,846		\$ 30 ^b	\$ 118
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{+58.7..... +112.0.....	{-3.6..... n.a.....	{n.a..... n.a.....	{-3.0..... +5.7.....	{-17.0..... -8.5.....
Rockford	\$1,259	23,808	\$14,450		\$ 113	\$ 156
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{+74.4..... +207.1.....	{+0.3..... n.a.....	{+14.1..... +10.6.....	{+0.4..... +28.5.....	{+5.8..... +8.6.....
CENTRAL ILLINOIS						
Bloomington	\$ 183	n.a.	\$5,075		\$ 48	\$ 79
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{-46.2..... +185.9.....	{-3.0..... n.a.....	{n.a..... n.a.....	{-4.5..... +20.4.....	{-9.9..... +7.5.....
Champaign-Urbana	\$ 222	n.a.	\$6,987		\$ 47	\$ 85
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{+5.2..... -10.9.....	{-0.7..... n.a.....	{n.a..... n.a.....	{-11.7..... +15.7.....	{-3.6..... -2.1.....
Danville	\$ 263	n.a.	\$5,448		\$ 40	\$ 47
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{+136.9..... -35.7.....	{-3.4..... n.a.....	{n.a..... n.a.....	{+12.8..... +20.4.....	{-9.5..... -5.1.....
Decatur	\$ 244	n.a.	\$8,802		\$ 87	\$ 80
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{-63.5..... -34.2.....	{-4.4..... n.a.....	{+19.5..... +7.4.....	{-15.9..... +21.3.....	{-1.5..... +2.6.....
Galesburg	\$ 49	n.a.	\$3,820		n.a.	\$ 27
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{-92.1..... -93.3.....	{-2.0..... n.a.....	{n.a..... n.a.....	{n.a..... n.a.....	{-5.9..... -7.5.....
Peoria	\$ 785	43,844 ^c	\$16,992		\$ 195	\$ 198
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{+21.7..... +83.8.....	{+2.2..... n.a.....	{+16.4..... +5.9.....	{-4.6..... +15.4.....	{+13.4..... +20.7.....
Quincy	\$ 482	6,625	\$4,775		\$ 32	\$ 60
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{+19.6..... +128.4.....	{+2.5..... +13.9.....	{+10.0..... +7.0.....	{-6.6..... +0.4.....	{-21.1..... +1.2.....
Springfield	\$ 527	19,931 ^c	\$12,519		\$ 83	\$ 173
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{-7.7..... +92.3.....	{-3.7..... n.a.....	{+14.9..... +20.0.....	{-2.4..... +25.5.....	{-4.4..... +1.3.....
SOUTHERN ILLINOIS						
East St. Louis	\$ 87	10,138	\$8,724		\$ 129	\$ 50
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{-67.4..... -53.7.....	{+5.0..... n.a.....	{n.a..... n.a.....	{-6.9..... +15.7.....	{+0.8..... +7.6.....
Alton	\$ 83	10,478	\$4,405		\$ 27	\$ 29
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{-70.3..... -2.4.....	{-5.9..... +25.4.....	{n.a..... n.a.....	{-2.3..... +16.9.....	{+27.0..... +2.6.....
Belleville	\$ 145	n.a.	\$4,118		n.a.	\$ 32
Percentage Change from.....	{Oct., 1950..... Nov., 1949.....	{+4.3..... +74.7.....	{+13.2..... n.a.....	{n.a..... n.a.....	{n.a..... n.a.....	{-1.8..... +5.4.....

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for October, 1950, the most recent available. Comparisons relate to September, 1950. ⁴ Research Department of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

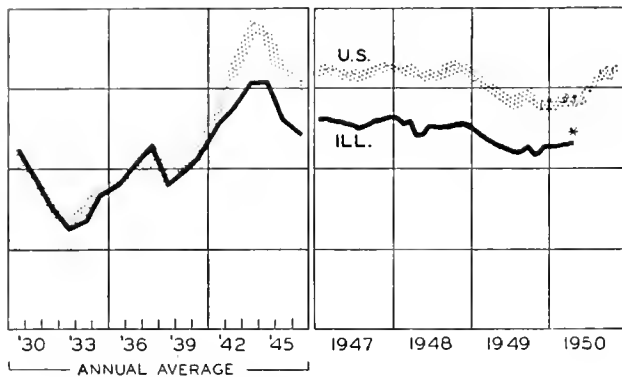
^c Includes immediately surrounding territory.

n.a. Not available.

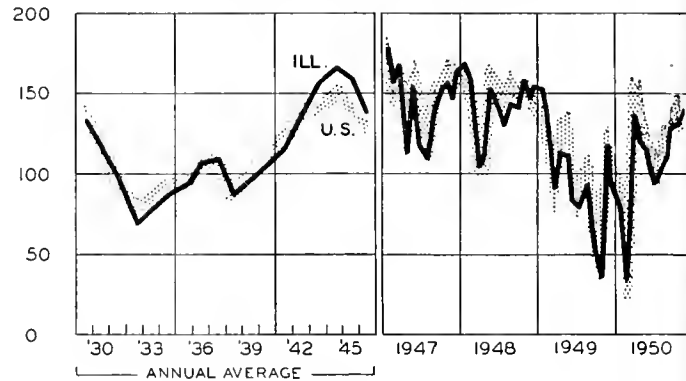
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

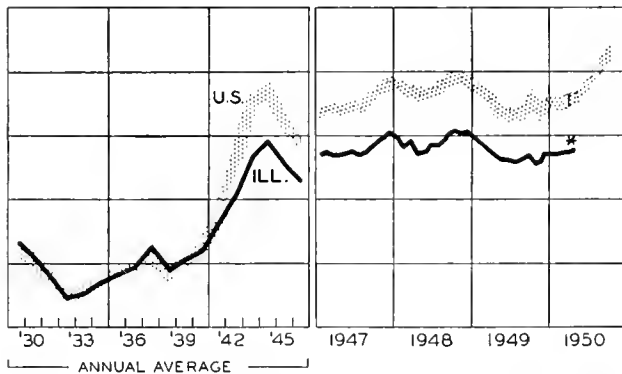
EMPLOYMENT - MANUFACTURING



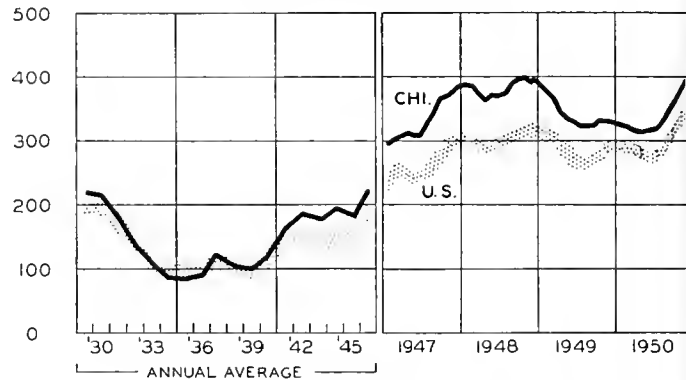
COAL PRODUCTION



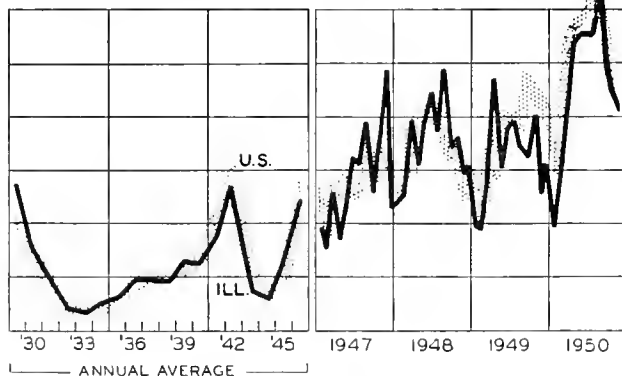
PAYROLLS - MANUFACTURING



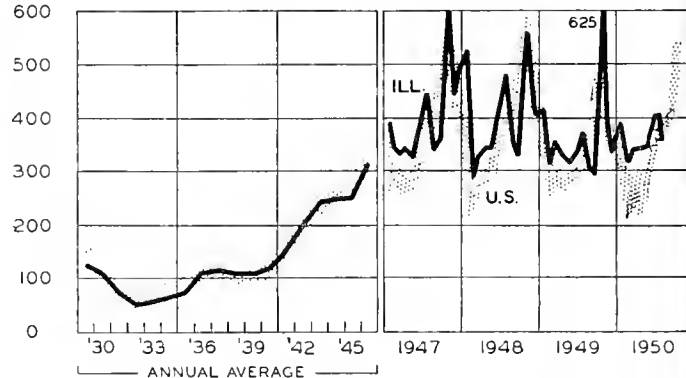
BUSINESS LOANS



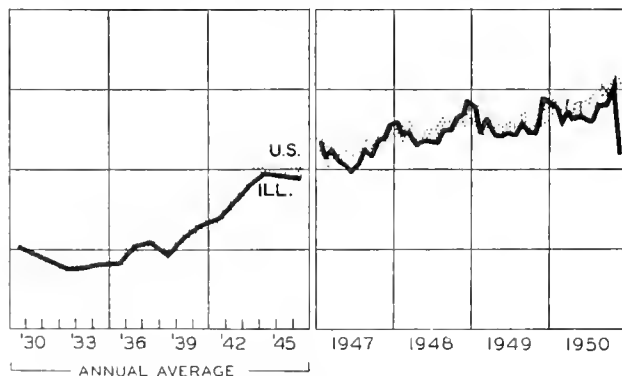
CONSTRUCTION CONTRACTS AWARDED



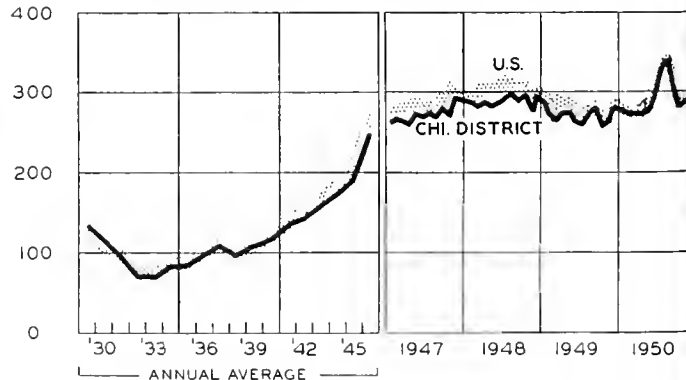
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



* Illinois figures being revised.

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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HIGHLIGHTS OF BUSINESS IN JANUARY

UNIVERSITY OF ILLINOIS

The nation's defense effort appeared to be shifting into high gear in January. Increased production of military supplies and of heavy goods for industry caused the Federal Reserve index of industrial production to approach 220 percent of its 1935-39 base period average; this is a new postwar high and 20 percent above last January's level. Despite the shift to military production, the output of most consumer durable goods was close to the record levels of the end of 1950. Passenger car assemblies have so far been maintained at about the 1950 monthly average of 550,000 units, a rate of output at least 30 percent above that of any previous year.

Indicative of the defense effort is the record government budget of \$71.6 billion proposed by President Truman for the fiscal year beginning July 1 (Special article, p. 8). Most of the money, \$41 billion, is needed for the armed forces.

Price Ceilings Imposed

In an attempt to stem the mounting tide of prices, the Economic Stabilization Agency announced on January 26 a general freeze of prices and wages. Prices are fixed at the highest level during a base period extending from December 19 through January 25. Almost all commodities are covered by the order except for most fruits, vegetables, and field crops, which are permitted to rise further until they reach parity price ceilings.

Meanwhile, prices continued to rise. The Bureau of Labor Statistics index of wholesale prices advanced 2.1 percent during the month. Farm products and textiles registered the largest increases, up 4.1 percent and 4.9 percent, respectively, during the month. Consumers felt the impact of higher prices, as the index of retail food costs advanced 1.2 percent in the half-month ending January 2, to an all-time high 119 percent above the 1935-39 base period. Prices paid by farmers are up also, but so far prices received by farmers have risen even faster. This is reflected in the rise of the parity ratio in January to 110, a two-point gain over December.

Employment Down

The post-holiday slump, though very mild this year, resulted in a decline of over one million workers in non-farm occupations in January. The effect on unemployment was very slight, however, as most of these people

were in temporary employment and left the labor force when the holiday rush was ended.

Although the civilian labor force in January, at 61.5 million, was about the same over-all size as that of January, 1950, significant changes have occurred in its distribution. Unemployment has declined about 2 million from last January's number of 4.5 million jobless. Correspondingly, total employment is up by the same amount. The entire increase is in nonfarm employment, which is now 53.0 million as compared with 50.7 million last year.

Construction Maintains Record Pace

The value of new construction put in place in January amounted to nearly \$2.1 billion, an all-time high for the month and 21 percent above January, 1950. The effects of the accelerated programs for industrial plant expansion are beginning to be felt, as private industrial construction jumped 83 percent above last January.

Private nonresidential building as a whole was up 55 percent, but despite the growing importance of this type of construction, home building continues to dominate the scene. The nearly \$700 million of new homes erected accounted for more than half of total private outlays for new construction in January and established a new record for the month.

Final figures for 1950 show that 1,400,000 homes were built during the year; the previous high was in 1949 when just over a million homes were put up. May, 1950, witnessed the largest number of homes ever to be constructed in one month so far, 148,000. However, with the new housing credit regulations, construction activity in the housing field is expected to taper off considerably in 1951.

Department Store Sales Surge Upward

The usual post-holiday letdown in department store sales was greatly moderated this January as consumer buying continued at a record rate. For the month as a whole, department store sales were over 30 percent above last January, with Cleveland, San Francisco, Minneapolis, Kansas City, and Dallas registering gains as high as 40 percent. The war scare in the early part of the month and the fear of higher prices undoubtedly contributed to the buying splurge. At the same time, the fact that prices were somewhat higher itself accounted for part of the increase in the dollar volume of sales.

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Taxation Unlimited

Stabilization policy is like that of the worried parents with the sick child. Not knowing just what's wrong, or how serious it may be, they try everything — shots, drugs, tonics, radiation, and vitamins.

Similarly, a host of stabilization measures are put into effect with scant consideration of whether they are appropriate to the situation. Among them are priorities and other restrictions on use of scarce materials, direct limitations on various types of construction, various forms of credit control, tax increases, and ceilings on prices and wages. Now, still further tax increases are proposed, partly just to help make effective the controls already in use.

"Pay as You Go"

The newest nostrum is that we should tax in accordance with the "pay as you go" principle. This means, in brief, that all government expenditures should be paid for out of current receipts, so that no deficits will be incurred. On this basis, President Truman has called for \$16.5 billion in new taxes. (See page 8.)

Underlying this policy is the view that deficits are invariably identified with "inflation." The fallacies of this view have been pointed out in previous issues. In 1949, when the economy was beset with deflation, not inflation, the surplus of 1948 turned into a deficit. In 1950, when price increases more than wiped out the losses of the year before, the deficit disappeared. Obviously, changes in the private sector of the economy are important in determining whether or not prices will move up or down, and whether or not there will be a deficit. If private spending is restricted — to prevent, for example, excess investment by business in facilities and inventories — government programs can be correspondingly expanded without producing any tendency toward inflation.

What the "pay as you go" principle seems to add to ordinary budget-balancing is the idea that since the war effort has to come out of current production in any case, we may as well pay for it now. In this, there is an implication that it makes little difference whether we pay now and give up all claims against future production or accumulate such claims in the form of assets, like government bonds, that may be converted for future use.

In the period when consumption has to be restricted in the interest of the war program, savings tend to rise because the goods desired are not available. Additional

income taxes then come largely out of savings, which, if not taxed away, would be available to finance expenditures in the postwar period. The income earner who is now quite willing to sacrifice for the war effort may still wish to save for the home or automobile of the future. In this, he would be wrong only if the emergency proves permanent, only if capacity will always be so strained as to enforce low consumption. The tremendous productivity of our economy offers him great assurance to the contrary.

The other main argument for "pay as you go" is that taxes distribute the burden equitably, whereas without them it is distributed unpredictably and unfairly through "inflation." Whether this would be the result, however, is precisely the question at issue. No doubt the burden will be shifted to some extent, but determining just how is not easy, and certainly cannot be done without considering the specific taxes to be enacted.

The inequity of rising prices is generally considered to be concentrated on consumers with fixed incomes; but it is by no means self-evident that a "pay as you go" policy is in their best interests. Under this policy they may well suffer a further reduction in the money incomes at their disposal without gaining any real advantage price-wise. For President Truman's recent proposal would increase their tax rates, too, by an additional four percentage points.

Is there any assurance that by paying this additional four percent they can avoid an equivalent increase in prices? Here the answer seems definitely in the negative. This new tax would produce an additional \$4 billion in the aggregate, or little more than one percent of the gross national product; and it probably wouldn't reduce prices even that much, because much of it would come out of savings rather than market demand.

Similarly, the proposed additional \$3 billion tax on corporate income can't be expected to restrain price advances. It won't necessarily restrict corporate spending, as corporations can draw upon other sources of funds, and prices will tend upward to the extent that producers find ways of passing the higher taxes on.

All things considered, "pay as you go" seems to offer little hope for the consumer who is squeezed by rising costs of living.

Setting Tax Objectives

Nor does the situation suggest that there is now less than the usual danger in overburdensome taxation. At some point before taxes become truly oppressive, they tend to result in evasion or discouragement. Some find incentives in hidden income received outside the usual channels of production and distribution; others develop a "don't care" attitude that restricts effort and efficiency.

This is not to say that taxes are already at a maximum. We have a tradition of observance of the tax laws; and further moderate increases in both corporate and individual income taxes seem clearly possible. But who can say just when the pressure will become high enough to break down this tradition?

Is there any reason to think that if taxes are raised so high as to actually restrict consumption, this form of "control" will receive any better popular support than restrictions imposed by high prices or direct controls?

In these circumstances, we should regard a balanced budget as a luxury rather than a necessity. And we should ask ourselves the question, "Can we afford it?"

In answering this question, we should give thought

(Continued on page 6)

THE TRUCKING INDUSTRY

The city of Chicago, widely known as the railroad center of the nation, is also the hub of another of America's great transportation enterprises—the trucking industry. Trucking in Illinois has naturally centered around this huge industrial area, which has almost three-fourths of the 201 Class I carriers (grossing \$100,000 or more annually) in the State. Although Illinois ranked only fourth in number of Class I carriers, there were 144 located in Chicago alone, more than in any other city in the nation and 60 more than operate out of New York, the second-place city.

Illinois as a whole was fifth in motor truck registrations in 1949, with 318,000 trucks of all types. The number of trucks, other than those of Class I carriers, that operate in or through Chicago is not available, but the total is probably second only to that for New York.

A Transportation Giant

The number of trucks in operation has almost doubled since the beginning of World War II. There are almost 8 million such vehicles in the United States today, over half of all the trucks in the world. Truck transportation in the nation gives direct employment to over 5 million Americans, more than are employed in all other forms of transportation combined.

The for-hire trucking industry in the United States is rolling up more than 90 billion ton-miles of intercity service annually. This represents an 80 percent increase in freight hauling since 1940; during this same period the industry's operating revenues increased almost 4 times.

Nearly two-thirds of America's freight tonnage now moves at one time or another by private or for-hire trucks. The emergence of this relatively new mode of transportation has cut into the railroad's comparative share of total freight hauling, but that total is now so large that rail transportation in the past few years has also been at a high point in its 120-year history.

There is, of course, a large area of competition between the railroads and trucking, although many trucking operations could never have been railroad business. The railroads maintain that recent trucking gains have been the result of the disparity between truck and rail rates, but truck owners stress their more flexible service. Both factors have undoubtedly been important.

In 1949, when rail rates were going up, revenues of the for-hire portion of the trucking industry were at an all-time high of \$3.1 billion. They totaled, for the first time, almost half as much as the freight revenues of the railroads, whose shipping tonnages declined while truck tonnages hit a new peak.

Primarily Small Business

Over four-fifths of the 7.7 million vehicles that provide the nation with truck transportation are privately owned. More than half of them belong to persons having only one truck. Although there are many trucking fleets numbered by the hundreds, or even thousands, only

15 percent of the nation's trucks are operated in fleets containing more than 8 vehicles.

Of the privately owned trucks in the United States, 4.4 million are owned by manufacturers, distributors, and business firms; and 2.2 million are run by farmers. Federal, state, and local governments own 300,000 trucks used by the armed forces, the postal service, fire departments, garbage collectors, and similar agencies.

The remaining 1 million trucks are operated by the nation's trucking industry on a for-hire basis, either as common carriers or on contract to one or more customers. The income of the nation's 22,000 interstate carriers, including 2,700 in the Class I category, represents a major proportion of the industry's revenues.

Contract hauling and common carriers nevertheless contribute a smaller percentage of total truck usage by the industry than that of local cartage operators which give complete door-to-door service or join with other forms of transportation by taking goods to railways or airports or delivering them to their final destinations.

In 1949 leased equipment represented 35 percent of the total number of vehicles in intercity operation. Truck leasing, with 60,000 vehicles in operation, is one of the most rapidly developing phases of the industry. The leasing companies completely relieve their customers of the investment responsibilities of trucking operations, and the majority also handle all details of operation including insurance, garage facilities, and maintenance.

Growth Through Specialization

An important factor in the growth of truck transportation has been its ability to specialize. One of the newest of the hundreds of different types of trucks in operation today is the refrigerated van. Not many years ago, highly perishable foods were not available away from their point of production except in large rail centers which could take refrigerated rail carloads. Today even the 25,000 communities in the nation with no other form of land transportation than the highways are supplied with fresh fruits and vegetables by refrigerated trucks, which can divide their loads among a number of towns.

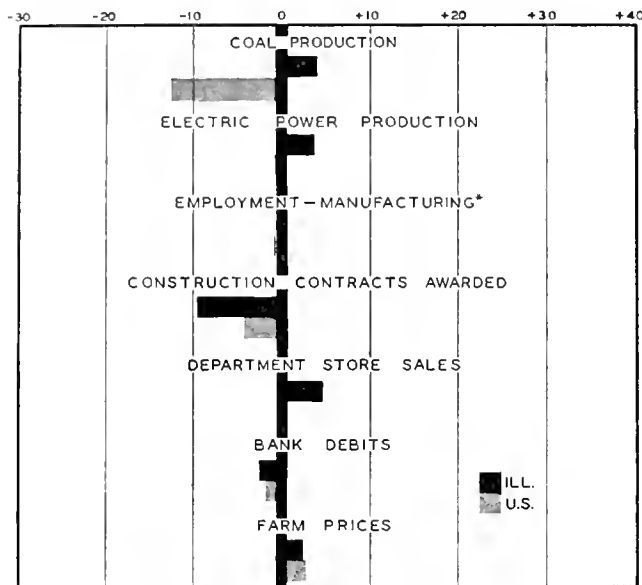
Other special types of trucks that supply both metropolitan areas and formerly isolated outposts include 100,000 tank-type trucks that transport milk and petroleum products, special vans that handle about 90 percent of household goods movements, vehicles that carry over 60 percent of all new cars from assembly lines to dealers, and livestock haulers that handle some 70 percent of the farm animals and over 95 percent of the live poultry that moves from farm to market each year.

The variety of trucks for every purpose has helped to make possible the recent population shifts from the cities to suburban and rural areas. Business and industry have also been decentralizing for a number of years, and both these trends contribute toward an increasing dependence on the very trucking facilities that were originally instrumental in their growth.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes October, 1950, to November, 1950



* Figure for Illinois not available.

ILLINOIS BUSINESS INDEXES

Item	November 1950 (1935-39 = 100)	Percentage Change from	
		October 1950	Nov. 1949
Electric power ¹	219.2	+3.9	+20.4
Coal production ²	140.9	+4.0	+18.0
Employment—manufacturing ³	n.a.		
Payrolls—manufacturing ³	n.a.		
Dept. store sales in Chicago ⁴	239.7 ^a	+4.5	+8.1
Consumer prices in Chicago ⁵	180.6	+0.1	+3.0
Construction contracts awarded ⁶	411.5	-9.3	+60.0
Bank debits ⁷	323.7	-2.5	+21.7
Farm prices ⁸	245.0	+2.6	+19.7
Life insurance sales (ordinary) ⁹	194.7	-3.4	+11.1
Petroleum production ¹⁰	231.1	-5.7	-4.0

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Repts.; ⁹ Life Ins. Agency; ¹⁰ Ill. Geol. Survey.

^a Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	November 1950	Percentage Change from	
		October 1950	Nov. 1949
Personal income ¹	231.9 ^a	+ 0.3	+12.7
Manufacturing ¹			
Sales	254.4 ^a	+ 1.0	+30.9
Inventories	32.7 ^{a, b}	+ 3.5	+13.9
New construction activity ^{1*}			
Private residential	13.5	- 9.0	+34.5
Private nonresidential	9.1	- 1.3	+17.3
Total public	8.0	-10.1	+19.5
Foreign trade ¹			
Merchandise exports	11.7	+ 8.2	+16.3
Merchandise imports	10.2	- 7.6	+43.7
Excess of exports	1.5		
Consumer credit outstanding ²			
Total credit	19.4 ^b	+ 0.1	+ 9.0
Installment credit	13.3 ^b	- 0.6	+27.6
Business loans ²	16.9 ^b	+ 4.1	+23.3
Cash farm income ³	39.6	- 8.0	+14.0
Indexes (1935-39 = 100)			
Industrial production ²			
Combined index	215 ^a	- 0.9	+24.3
Durable manufactures	260 ^a	- 0.8	+43.6
Nondurable manufactures	195 ^a	- 0.5	+10.2
Minerals	162 ^a	- 2.4	+14.9
Manufacturing employment ⁴			
Production workers	164	- 0.3	+15.4
Factory worker earnings ⁴			
Average hours worked	109	- 0.5	+ 5.1
Average hourly earnings	252	+ 0.6	+ 8.5
Average weekly earnings	277	+ 0.1	+14.0
Construction contracts awarded ⁵	460	- 4.3	+13.5
Department store sales ²	291 ^a	0.0	+ 4.7
Consumers' price index ⁴	176	+ 0.7	+ 4.4
Wholesale prices ⁴			
All commodities	213	+ 1.5	+13.2
Farm products	242	+ 3.3	+17.1
Foods	222	+ 1.6	+10.3
Other	201	+ 1.2	+12.8
Farm prices ³			
Received by farmers	258	+ 3.0	+16.5
Paid by farmers	210	+ 0.8	+ 7.3
Parity ratio	105 ^c	+ 1.9	+ 8.2

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.

^a Seasonally adjusted. ^b As of end of month. ^c Based on official indexes, 1910-14 = 100. * Data revised; not comparable with figures in previous issues.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1950					1949
	Dec. 30	Dec. 23	Dec. 16	Dec. 9	Dec. 2	Dec. 31
Production:						
Bituminous coal (daily avg.)	1,820	1,838	2,001	1,903	1,554	1,328
Electric power by utilities	6,479	7,033	6,985	6,909	6,716	5,493
Motor vehicles (Wards)	127.0	152.7	164.3	154.7	147.3	106.7
Petroleum (daily avg.)	5,691	5,685	5,646	5,678	5,749	4,933
Steel	216.3	217.8	218.9	217.1	176.5	192.3
Freight carloadings	602	747	773	767	740	496
Department store sales	237	639	638	554	444	197
Commodity prices, wholesale:						
All commodities	176.0	174.7	173.6	172.7	171.7	151.2
Other than farm products and foods	165.9	165.2	164.5	163.4	162.8	145.6
28 commodities	367.6	363.0	356.0	354.7	346.8	247.7
Finance:						
Business loans	17,839	17,801	17,461	17,261	17,097	13,904
Failures, industrial and commercial	125	174	150	170	160	109

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Continues High

Following the brief slump caused by late November's severe storms, production picked up again in December and was expected by the Federal Reserve Board to equal or exceed the November level of 215 percent of the 1935-39 base. Steel production was scheduled above the rated capacity level throughout the month, with weekly production averaging 1,940,000 net tons of ingots and castings. As shown in the accompanying chart, high steel production since April has consistently surpassed the wartime monthly record of 7,826,000 tons. Output of ingots and castings for 1950 is estimated at 97 million tons, about 8 percent over the previous high set in 1944. Despite the record level, however, steel users are finding the pinch increasingly tight, and it is reported that short supplies are forcing more general production cutbacks.

Automotive production increased over November, rising to a weekly average of 145,000-150,000 vehicles; this level remained substantially below previous highs. Model change-overs were less significant as a limiting factor, but supply shortages, especially of steel, were becoming increasingly important. By the end of the month, General Motors, Packard, Ford, and Studebaker had announced plans for production cuts.

Credit Volume Leveling Off

The volume of credit continued to rise in November, though at a somewhat slower rate than in previous months. The increase of \$11 million in consumer credit from the end of October to the end of November was relatively small in view of the season, and as compared with the \$300 million monthly spurts earlier this year. It therefore appears that FRB controls are taking effect. Installment credit, chief factor in earlier increases, actually fell fractionally during the month to \$13.3 billion, a large part of the drop reflecting less extensive use of

credit for automobile buying; this was the first November decline since 1943. Increases in non-installment credit buying, mainly charge accounts and single-payment loans, a little more than offset the declines in installment credit and carried total consumer credit outstanding to a total of \$19.4 billion.

Bank loans to business borrowers rose sharply again from November 29 to December 27 by \$742 million to a total of \$17.8 billion. Weekly increases ranged as high as \$340 million (in the week preceding Christmas). Most of the loans appear to have been used to carry inventories, especially in agricultural commodities such as cotton, but some have been used for other purposes.

Nonfarm Employment Rises Again

An additional 350,000 workers moved into nonagricultural employment between early November and early December, raising total nonfarm employment to 54,075,000. Part of the pick-up may have been seasonal, as more temporary workers were hired, especially by retailers, to take care of the Christmas rush, but the prospect for finding additional permanent workers is still not encouraging. Farm employment was down seasonally, as 1,300,000 workers left the farm labor group; most of them also left the labor force, which declined by nearly one million. Unemployment showed virtually no change. Bureau of Census data, in thousands of workers, are as follows:

	December 1950	November 1950	December 1949
Civilian labor force.....	62,538	63,512	62,045
Employment.....	60,308	61,271	58,556
Agricultural.....	6,234	7,551	6,773
Nonagricultural.....	54,075	53,721	51,783
Unemployment.....	2,229	2,240	3,489

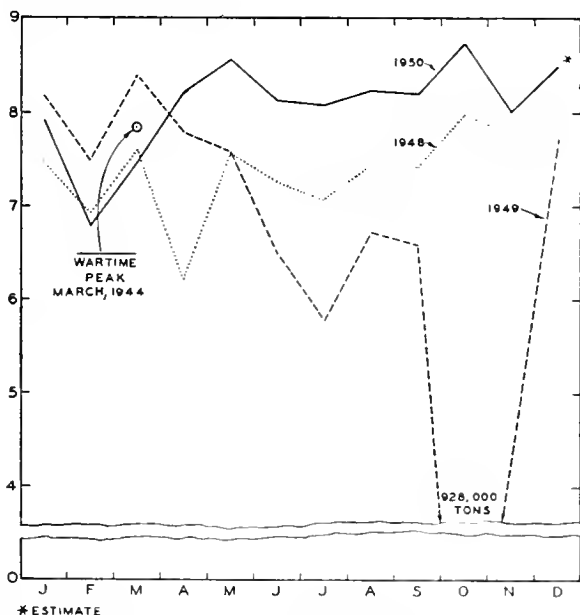
What the Census aggregates fail to show is that the mobilization effort has reached a point where employment appears to be moving in several different directions. In a few major industrial areas, such as Detroit, there is the paradox of large-scale layoffs (as conservation orders for scarce materials cut into supplies of materials and hence into output) and shortages of skilled laborers and professional people. These spot surpluses and spot shortages are expected to continue to exist side by side for perhaps another six months as defense preparation advances through the various steps from planning to production.

The main problem, however, will be that of obtaining more manpower. One method which will doubtless be used is that of lengthening the work week. In November the average manufacturing work week, at 41.1 hours, was more than half an hour longer than it was last June, but was 4.5 hours under the wartime peak, reached in December, 1944, of 45.6 hours. Durable goods manufacturing employees, working 41.8 hours a week in November, 0.5 of an hour longer than before the outbreak in Korea, were still well under the wartime peak of 47.2 hours. Workers in nondurables manufacturing, with a November work week averaging 40.2 hours, 0.7 hours over June, were much nearer their wartime high of 43.5 hours.

Prices Up Generally

Again in December, both wholesale and retail prices were up and in important groups of commodities the increases were greater than in October and November. Prices at wholesale for 28 sensitive commodities rose nearly 6 percent during December to 367.6 (August,

STEEL PRODUCTION: INGOTS AND CASTINGS
MILLION SHORT TONS



Source: American Iron and Steel Institute.

from \$17.8 billion on December 27 to \$18.1 billion on January 31.

Rubber in Short Supply

Rubber, together with other strategic materials such as steel, copper, aluminum, and sulphur, continues to be a headache for defense planners. Natural rubber imports fluctuate widely in any case, having ranged between 60,000 and 80,000 long tons monthly since last March. High current demand by every industrialized nation, coupled with a limited supply, has contributed to the sharp rise in the price of natural rubber, illustrated in the chart; but the most important factor in that demand has been the American stockpiling program which has been accelerated since the outbreak in Korea. Since total consumption exclusive of stockpiling has risen substantially during the last year, synthetic rubber production has gradually been increased to help make up the deficit. Plans for turning over to private industry the plants built by the government, and now being operated by it at full speed, seem likely to be dropped. Even with capacity operation of the synthetic plants and fairly high-level imports, rubber needs are still not being fully met. As a result, the amount of synthetic rubber going into tires for civilian consumption has been cut by about one-sixth and the government has taken control of all natural rubber imports.

Wholesale Prices at New High

Wholesale prices in general again rose sharply during January. The BLS index of 28 sensitive commodities advanced 5.2 percent over the month to a high of 388.7 on January 31 (August, 1939 = 100). Import and industrial price increases of 8.1 percent and 6.1 percent, respectively, were the chief causes of the advance. In the six months from July 28, 1950, to January 29, 1951, this basic commodity index has risen nearly 28 percent, chiefly

as a result of large increases in import and industrial prices. In the imported group, rubber (see chart) and tin have been the largest contributors to the rises.

The comprehensive BLS index of about 900 commodities showed a lesser but still sizable increase of 2.1 percent during January from 176.8 to 180.5 (1926 = 100). Farm products, up 4.1 percent, were the most important factor.

A 5 percent increase in prices received by farmers to 300 (1910-14 = 100) from mid-December to mid-January was the largest since last July. Nearly all farm commodities contributed to the rise. Prices paid also rose, by 3 percent, mainly because of higher wage rates. As a result, the parity ratio rose from 108 to 110.

Consumers' prices have apparently begun to catch up with earlier rises in wholesale prices and for the first time since July rose by more than 1 percent in a single month. A 1.6 percent advance from November 15 to December 15 carried the consumers' price index to 178.4 (1935-39 = 100). According to the BLS, the increase was the largest since September, 1947. Food prices, up nearly 3 percent, were mainly responsible for the increase. The aggregate rise in the index between last June, when war broke out, and December amounted to 4.8 percent.

Taxation Unlimited

(Continued from page 2)

to our basic objectives. Are these objectives to collect high taxes and to do everything else that might help prevent any increase in prices? Or are they to build invincible defenses and to promote economic progress for the purpose of minimizing reductions in living standards?

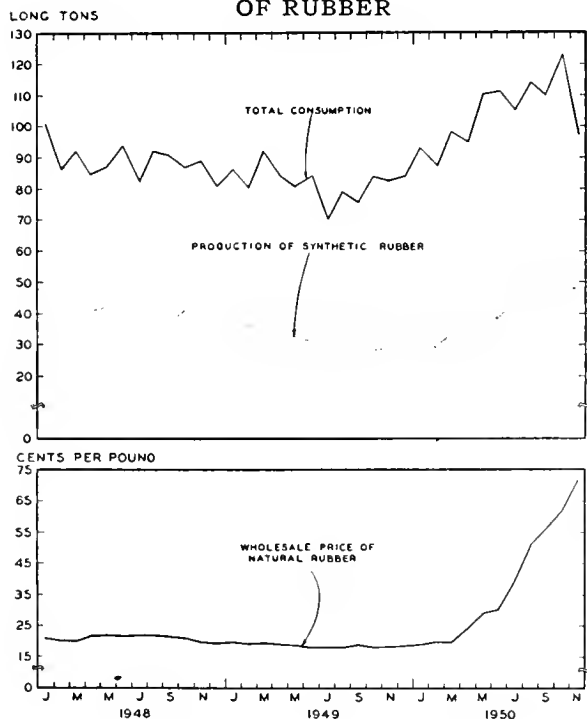
All that stabilization can legitimately aim at is preventing a rate of change in prices and incomes so fast as to be disruptive. How fast a rate of advance may be permitted depends largely upon the measures adopted to prevent it. Most of the alternatives, too, are disruptive; almost every control sets up some interferences and produces some loss of efficiency.

What can be done depends also upon the urgency of the situation; for the public will not long accept all-out wartime controls in a short-of-war situation. Imposition of such controls takes on an ironic character when it is considered that no extreme or permanent inflation is likely in such a situation. The "inflation" probable in the first year or two of military build-up—considering the offsets in civilian investment and durable goods expenditures which are necessary in order to get the war program accomplished—is moderate. And once the military program levels off—assuming for the moment that it could level off at some such rate as \$60 billion per year—the economy would, in a limited period, catch up in real production so that even that moderate inflationary pressure would be eliminated.

The first aim of tax policy, therefore, should be to determine a proper tax objective, and not to engage in a game of devising schemes for getting all the taxes possible. Since inflationary pressures are not unlimited, there is no need for unlimited taxes. As we view it, a more limited tax objective than "pay as you go" is entirely appropriate. If it were so restricted as to leave a deficit equivalent to what the public is willing to invest in government bonds, there would be little difference in prices, but a better chance of attaining goals that are really worth striving to achieve.

VLB

PRICE, PRODUCTION, AND CONSUMPTION OF RUBBER



Sources: U. S. Depts. of Commerce and Labor.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Economic Mobilization

The January, 1951, issue of *Dun's Review* contains four articles on the lessons learned about a wartime economy during World War II. "What the War Taught Us About Materials Controls" tells how much of each basic material of war was needed last time, the methods used to accomplish the huge production task, and how it can be done again. "What the War Taught Us About Price Controls" touches on various problems that America may encounter in our present price control program, based on World War II experience. "What the War Taught Us About Wage Controls" describes the lessons learned by the National War Labor Board during World War II which should guide us during future wage control operations. The final article, "What the War Taught Us About Military Procurement," explains how army and navy procurement was expedited by central sources of control, and proposes the unification of all Federal procurement activities.

Neon Sign Development

Counter-type neon signs with individual interchangeable letters are being produced by Neograme, Limited, London. They may be operated from any electrical outlet, with a power consumption of less than 10 watts for a 50-letter message. Individual letters and characters with small magnets attached can be fixed in any position on a ferro-magnetic plate and light automatically. Two standard sizes of letters and numbers are offered, 1½ and 2 inches high, in a full range of colors. This easy interchangeability of message and design is expected to find wide use in theaters and stores.

Buyer's Guide

A new type of buyer's guide is soon to be offered by the Manufacturers Directory Company (603 South Dearborn Street, Chicago 5). Its first section will include a listing of more than 13,000 industrial manufacturers which are valued at \$50,000 or more, arranged geographically by type of business. A second section will give Federal government information for commerce and industry, including government procurement office locations, names of Federal officials, data on how and where to obtain government contracts, and postal information. The final part consists of a 192-page classified buyer's guide, of special interest to purchasing agents.

Excess Profits Tax

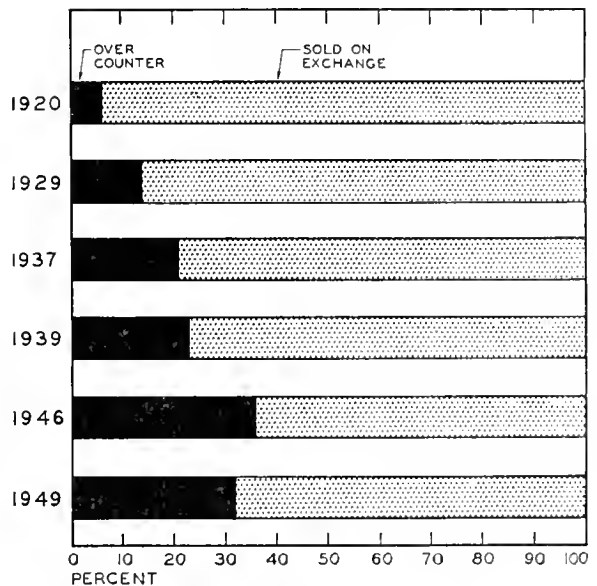
Prentice-Hall, Incorporated (70 Fifth Avenue, New York 11, N. Y.), has published a booklet explaining the *Excess Profits Tax Act of 1950* (\$1.00). Describing the relationship of the excess profits tax to the income tax, it tells how to take advantage of the general relief provisions of the act, which takes effect as of July 1, 1950. The tax is essentially an additional tax on part of the corporate income on which income tax is payable. It is figured on the basis of 30 percent of income subject to the excess profits tax—namely, income less credits allowed for such things as average earnings in the years 1946-49, invested capital, and historical invested capital.

These credits are the standard for measuring the amount of a corporation's annual profit that is not considered excessive, and unused portions of credit may be carried over for use in future years.

Over-the-Counter Security Sales

The University of Pennsylvania has published a booklet entitled *Activity on Over-the-Counter Markets*, by Irwin Friend. Describing the results of a study of the over-the-counter securities markets made at the university, the booklet focuses attention on outstanding corporate stocks. In total value of security transactions, over-the-counter markets are far more important than the exchanges, since virtually all trading in outstanding Federal, state, and municipal issues is over the counter and sales of new issues are restricted to these markets. The picture is quite different for outstanding corporate stock alone. Although the total sales of such stock have varied from \$157 billion in 1929 to only \$15 billion in 1939, during the past 30 years the proportion of over-the-counter sales has continued to rise. As shown by the chart, about one-third, or \$5 billion, of the total \$16

METHODS OF SALE OF CORPORATE STOCKS OUTSTANDING



Source: *Activity on Over-the-Counter Markets*, p. 9.

billion in sales of outstanding corporate stock in 1949 were in the over-the-counter markets, compared with only a 6 percent share of the total in 1920. Reasons for the decline in the importance of the exchange include the improvement in communication facilities among broker-dealers, and changes in the tax laws and securities legislation, both of which had a more restrictive effect on the exchanges than on over-the-counter activity.

Labor Arbitration Code

The publication of a code of ethics for the conduct of arbitration activities has been announced by the three

(Continued on page 9)

THE FEDERAL BUDGET FOR 1952

HOWARD R. BOWEN, Professor of Economics

President Truman's annual budget message presents perhaps the grimmest outlook that has confronted the Congress and the American people since the close of World War II. It translates into the cold language of dollars and cents the nature of both the problems we face and the costs and sacrifices that lie ahead.

We have all known in a general way that large-scale rearmament will be necessary, and that we are entering a regime of relative economic austerity for the individual citizen. Nevertheless, it is a shock to read that the head of our government and his staff, after careful consideration, have concluded that total government spending in the fiscal year beginning July 1 next should be nearly three-fourths of the amount spent in 1944-45 at the height of World War II; and that taxes should be increased so that total receipts will be 60 percent more than they were in 1944-45.

Expenditures

In the President's message \$71.6 billion of expenditures is proposed for the fiscal year 1952, that is, the year ending June 30, 1952. This compares with an estimated \$47.2 billion in the current fiscal year; \$98.7 billion in fiscal 1945 at the peak of World War II; and \$9.0 billion in fiscal 1939, before the outbreak of World War II.

When these figures are expressed as a percentage of national income, the comparisons with earlier years are found to be less striking. (See chart.) This is because national income has risen dramatically in recent years. Proposed Federal expenditures in 1952 will represent about 26 percent of the national income. Thus, although 1952 expenditures, in dollars, will be nearly three-fourths of 1945 expenditures, they will be only about half as great *relative to national income*. This means that when the size of the 1952 budget is considered in relation to the rise in prices and to the growth in productive power in recent years, the real burden of Federal expenditures will be only about half as great as in 1945 at the climax of World War II.

A similar comparison can be made with the year 1939, when Federal expenditures were only \$9.0 billion but were nearly 13 percent of the national income. Thus, while Federal expenditures in money terms will be eight times

what they were in 1939, the real burden of these expenditures, *relative to national income*, will be only about double that of 1939.

Budget Receipts

In President Truman's message, it is estimated that total budget receipts for 1952, assuming no change in tax rates, will be \$55.1 billion. This compares with \$44.5 billion estimated for the present fiscal year 1951, \$44.8 billion for 1945, and \$5.1 billion for 1939.

The sources of the \$55.1 billion for 1952 are estimated as follows: \$24.5 billion (net) from personal income taxes and other direct levies on individuals; \$19.6 billion (net) from direct taxes on corporations; \$8.2 billion from excises; and \$2.8 billion from customs and other sources.

The contemplated burden of taxation, in relation to national income, will be a heavy one. The \$55.1 billion of tax receipts, as estimated for fiscal 1952, represents about 20 percent of the prospective national income. This figure is based on the assumption that taxes remain at present rates. If they are raised, as is almost certain, the percentage will be higher. In 1945, at the height of World War II, taxes represented about 24 percent of national income. The prospect, then, is for the burden of taxation in 1952 to be about as great, relative to national income, as in the war year 1945.

The Deficit

With proposed expenditures of \$71.6 billion and estimated receipts of \$55.1 billion, a deficit of \$16.5 billion is anticipated unless tax rates are changed. The President is emphatic, however, in his recommendation that tax rates be increased "in the conviction that we must attain a balanced budget to provide a sound financial basis for what may be an extended period of very high defense expenditures."

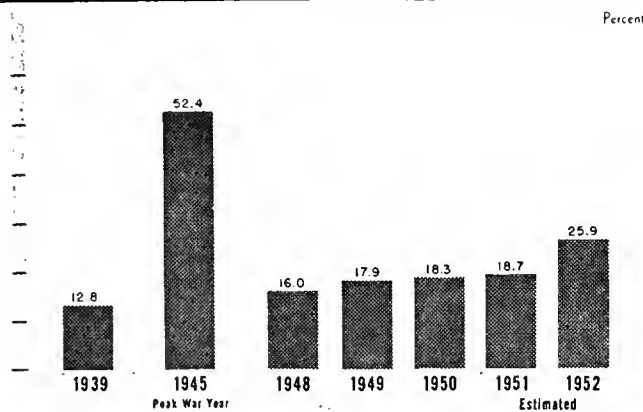
It is clear that to meet the deficit of \$16.5 billion will require taxes of the utmost severity. This amount is nearly two-thirds of the amount to be raised from the personal income tax at present rates and over 80 percent of the amount to be raised from direct taxes on corporations. To add that much to a tax system already considered burdensome will require enormous political courage on the part of Congress. Whether the entire deficit will be covered by new taxes remains a question. We can be fairly sure, however, that there will be some new items or higher rates in the tax bill the public is called upon to pay.

The Military Program

The budget for 1952 is dominated by proposed expenditures for national security. The budget message states: "The requirements of national security are reflected in every major function of the Budget. The entire Government is being redirected to meet the compelling demands of national security, and each functional category includes activities which support, directly or indirectly, the defense effort."

The two largest items in the budget, *Military services* and *International security*, are devoted entirely to the broad objectives of national security. They are estimated at \$41.4 and \$7.5 billion, respectively. Together they total \$48.9 billion, or nearly 69 percent of the total budget. An

BUDGET EXPENDITURES AS A PERCENTAGE OF NATIONAL INCOME



Source: Bureau of the Budget.

increase of 90 percent is proposed for these two items over the amount being spent in the current year 1951.

Substantial amounts of other expenditure categories are intended for defense purposes. For example, defense production and economic stabilization are included under *Finance, commerce, and industry*; the Merchant Marine and the Coast Guard are included under *Transportation and communication*; power projects and atomic energy developments are included under *Natural resources*; defense housing and civil defense are included under *Housing and community development*; benefits to newly-discharged veterans are included under *Veterans' services and benefits*; the service on any new debt incurred for defense purposes is included under *Interest*; dispersal of government facilities is allocated under *General Government*. When all these and other similar items are combined, it is found that an additional sum of about \$4 billion may be considered as directly related to defense. Evidently the aggregate defense program will cost about \$53 billion in 1952. This is nearly three-fourths of the total budget.

The defense program which we may expect from this \$53 billion includes expansion of our Army, Navy, and Air Force to nearly 3½ million men; the training of reserve personnel; supplies to our fighting forces in Korea; tooling up for the production of weapons, including the development of capacity for 50,000 planes and 35,000 tanks per year; provision of great reserves of military supplies; military and economic aid to potential allies; stockpiling of critical materials; construction and improvement of training facilities and air bases; technical and scientific development; economic stabilization; and civilian defense. In short, the immediate purpose is to prepare the country so that transition to an all-out war emergency could be made quickly and effectively on short notice.

Proposed Reductions

There has been great public interest in recent years in the possibility of curtailing "nonessential" Federal expenditures. Until recently, this interest focused on the objectives of lowering taxes and of preventing further growth in the scope and size of government. More recently, concern has centered around the control of inflation.

To determine whether savings have been effected in the 1952 budget is difficult because increased expenditures for defense purposes are to be found in almost all of its functional categories. Substantial reductions can be found, however, in the postal deficit, flood control, reclamation, Indian land resources, agricultural aids, rural electrification, aids to housing and community development, and veterans' benefits.

On the difficulty of effecting significant reductions in Federal expenditures, the Bureau of the Budget recently commented by releasing a table in which it classified expenditures into three categories: (1) major national security programs, (2) major fixed and continuing charges, and (3) other.

The table lists the national security items totaling \$52.5 billion. These are presumably not to be reduced, since we are entering a major rearmament program.

It then sets forth the major fixed and continuing items which are not subject to annual budgetary control. These items include definite obligations of the government such as interest on the debt, expenses of carrying out the International Wheat Agreement, and payment of claims on the government. They also include open-end programs in which expenditures are largely governed by the individuals as they exercise privileges granted by

basic law — for example, veterans' benefits, expenses of the Commodity Credit Corporation, and public assistance grants. The total of these fixed and continuing items is \$14 billion.

The combined total of these two classes of expenditures is \$66.5 billion. The total budget is \$71.6 billion. This leaves only \$5.1 billion of expenditures for which reductions are possible. Within this category of expenditures net reductions of \$321 million, or 6 percent, were in fact effected.

Inflationary Potential

In appraising the possible inflationary effects of the 1952 budget it is necessary to consider the probable size of the deficit. As pointed out, the deficit would be \$16.5 billion if there were to be no changes in tax rates. On the assumption, which is a virtual certainty, that taxes will be raised, the ultimate deficit will be less than this amount.

But for purposes of analyzing the inflationary potential, it is not the budgetary deficit but the cash deficit that is relevant. The cash deficit is the difference between total cash payments of the Federal government to the public and total cash receipts from the public. These cash payments and receipts are not necessarily the same as the budgetary expenditures and receipts. The cash budget includes, for example, operations of Social Security and other trust funds, whereas the ordinary budget excludes these operations. The trust funds are currently accumulating reserves for the payment of future benefits, and the cash receipts into these funds exceed the cash payments from them. Therefore, the cash deficit is substantially smaller than the budgetary deficit. The cash deficit (assuming no change in taxes) is estimated at \$12.8 billion, as compared with the budgetary deficit of \$16.5 billion.

This difference means that a balanced cash budget could be achieved with substantially lower taxes than would be required to balance the ordinary budget. Thus, if President Truman's tax program were carried out, a substantial surplus in the cash budget would result. Such a surplus would be consistent with the aim of controlling inflation.

Business Briefs

(Continued from page 7)

organizations that supply most of the nation's 12,000 labor-management arbitrators — the American Arbitration Association, the Federal Mediation and Conciliation Service, and the National Academy of Arbitrators. Two years in the making, the new rules are expected to bring speedier settlements of disputes, with uniform standards of conduct during arbitration hearings and a better understanding of the arbitration process by labor and management.

New Insulating Plastic

Production of a new structural insulation plastic has been announced by the B. F. Goodrich Company. A polyvinyl resin called Geon 404, the new plastic has outstanding electrical, physical, and chemical properties and can be processed on conventional plastics equipment without the use of plasticizers (compounds which make plastics materials more workable). During the present emergency, however, only limited quantities will be available for military and other essential uses.

LOCAL ILLINOIS DEVELOPMENTS

Business activity in the State continued to rise in December. November to December gains were recorded in most activity, and except for petroleum production, the general level was well above that of December, 1949.

Business in the State in 1950 generally exceeded that for the year 1949 (See chart) and in some instances topped 1948 highs. The greatest gain was in construction activity, with contracts awarded up 44 percent over 1949. Steel production in the Chicago industrial area was at an all-time high during most of 1950, with total production for the year approximately 21 percent above 1949 and 8 percent above 1948. Manufacturing employment throughout most of 1950 was above 1949 levels but only twice reached the 1948 monthly average of 1.2 million. The decline in petroleum production was due to the fact that not enough producing wells were drilled to offset the depletion of old wells.

Retail sales for the year, at \$9.2 billion, set a new record, exceeding the previous high in 1948 by 4.9 percent. Cash farm income for the year was down 0.6 percent. However, farm income rose during the last six months of 1950, and for that period was approximately 3 percent greater than for the first six months of 1949.

Construction

Building permits issued in the 20 reporting cities in December showed valuations 23 percent less than in November but 6 percent above December, 1949. Value of permits issued in these 20 cities during 1950 was 55 percent greater than in 1949. Rockford registered the greatest gain, 138 percent above 1949, and Belleville, with a 135 percent increase, was second. Seven other cities reported increases of more than 50 percent. East St. Louis was the only reporting city to decline.

The Youngstown Sheet and Tube Company is expanding its East Chicago plant facilities to provide for an additional 430,000 tons annually. Pressed Steel Car Company is establishing a large tank depot at its south-side Chicago Hegewisch plant. The company has entered into a \$10 million contract with the Ordnance Corps of the Army to process combat vehicles manufactured elsewhere.

Mid-States Gummed Paper Company is constructing a \$3 million plant in southwest Chicago to expand production of gummed paper and cloth tapes and labels. Allied Chemical and Dye Corporation is increasing its facilities in Chicago for manufacturing phthalic anhydride, a chemical used in making lacquers and paints. The company is also expanding its refining facilities and will construct a new power plant. American Brass Company, a division of Anaconda Copper Mining Company, is constructing a \$1,250,000 warehouse and office building on Chicago's west side, to which it will transfer all its Chicago warehouse and office operations. General Mills, Inc., is constructing a chemoil plant at Kankakee to manufacture amines, amides, and nitriles (nitrogen compounds) from animal and vegetable oils.

Important among downstate developments is the planned \$26 million investment by Dow Chemical Company to convert the former Standard Steel Spring Company plant, at Madison, into a magnesium rolling mill. The plant, scheduled to go into production in about a year, will be the only continuous rolling mill for magnesium in the United States.

First major project of the Bi-State Development Agency, the agency recently authorized by the Illinois and Missouri legislatures to solve mutual problems in the St. Louis metropolitan area, will be the construction of a 600-foot wharf on the new Chain of Rocks Canal at Granite City, estimated to cost \$850,000. Funds for its construction will be advanced by the Granite City Steel Company, which will lease 400 feet of the wharf.

A \$4 million plant near Jacksonville is being constructed by Mrs. Tucker's Foods, Inc., of Sherman, Texas.

New Power Plants

Plans for the construction of two multi-million-dollar power plants in the State have been announced.

Electric Energy, Inc., formed by five Midwest utilities, will build and operate the \$85 million electric plant at Joppa, which will supply half of the power for the government's new atomic energy installation at Paducah, Kentucky. The power plant will have four turbo-generators capable of producing 652,000 kilowatts.

The Illinois Commerce Commission has approved the plans of the Illinois Power Company for a \$17 million steam-electric generating station near Hennepin. The initial installation, scheduled for completion in 1953, will have a 60,000-kilowatt turbo-generator.

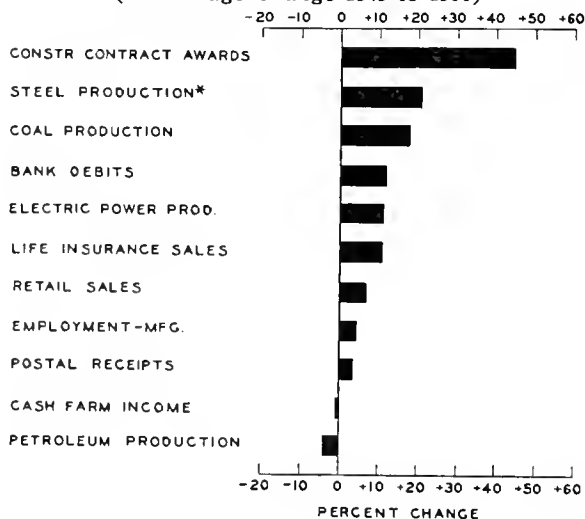
Prices

The Chicago consumers' price index advanced 1.9 percent in the month ended December 15, to a new all-time high of 184.1 percent (1935-39 = 100), 6.3 percent above December, 1949. Increases were reported in all groups of commodities and services, with food prices, 3.5 percent above November, leading the advance.

Food prices in Springfield advanced slightly more than in Chicago. On December 15, the Springfield retail food price index was 228.9 percent of its 1935-39 average, up 3.9 percent in the month. Food prices in Peoria rose 1.2 percent during the same period.

Illinois farm prices rose 4.4 percent between November 15 and December 15 to 254.8 percent of the 1935-39 average, the highest point since October, 1948. Since the index of prices paid by farmers increased only slightly, the Illinois parity ratio rose three points to 108.

SELECTED ILLINOIS BUSINESS INDICATORS
(Percentage Change 1949 to 1950)



*CHICAGO INDUSTRIAL AREA

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

December, 1950

	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS	\$18,178 ^a	900,896 ^a	\$501,296 ^a		\$11,566 ^a	\$15,006 ^a
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ +5.7 +11.1	{ +0.9 n.a.	{ +43.0 +8.3	{ +16.8 +22.7	{ +14.8 +1.0
NORTHERN ILLINOIS						
Chicago	\$12,830	712,519	\$374,552		\$10,598	\$12,873
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ +5.4 +9.2	{ +2.2 n.a.	{ +38.5 +4.4	{ +15.9 +23.1	{ +10.6 +0.6
Aurora	\$ 130	n.a.	\$6,467		\$ 40	\$ 107
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ -77.0 -14.5	{ -5.0 n.a.	{ +35.9 +11.1	{ +1.0 +10.3	{ +16.8 -4.5
Elgin	\$ 426	n.a.	\$5,112		\$ 28	\$ 111
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ +2.7 +5.2	{ -0.1 n.a.	{ +53.4 +5.9	{ +2.4 +13.3	{ +8.9 +7.2
Joliet	\$ 95	n.a.	\$8,811		\$ 50	\$ 117
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ -47.2 +28.4	{ -3.1 n.a.	{ +47.5 +10.3	{ +10.3 +18.5	{ +55.3 -3.4
Kankakee	\$ 274	n.a.	\$4,166		n.a.	\$ 48
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ -29.4 +285.9	{ -2.3 n.a.	{ +57.6 +33.0		{ +49.6 +2.5
Rock Island-Moline	\$ 637	18,179	\$8,616		\$ 32 ^b	\$ 191
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ -50.5 -9.0	{ -2.6 n.a.	{ n.a.	{ +6.0 +9.2	{ +62.4 +1.0
Rockford	\$ 472	25,500	\$14,757		\$ 124	\$ 246
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ -62.5 -25.2	{ +7.1 +18.8	{ +2.1 n.a.	{ +47.8 +8.7	{ +9.8 +21.3
CENTRAL ILLINOIS						
Bloomington	\$ 210	4,895	\$5,080		\$ 48	\$ 96
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ +14.8 +262.1	{ +0.1 n.a.	{ n.a.	{ +0.3 +18.1	{ +22.4 +1.8
Champaign-Urbana	\$ 304	8,078	\$6,570		\$ 47	\$ 115
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ +36.9 +14.3	{ +9.9 +16.3	{ n.a.	{ -0.7 +24.4	{ +36.3 +1.8
Danville	\$ 48	7,462	\$5,605		\$ 39	\$ 80
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ -81.7 -78.5	{ +6.6 +18.6	{ +2.9 n.a.	{ +51.8 +8.0	{ -3.5 +0.7
Decatur	n.a.	18,319	\$8,760		\$ 85	\$ 138
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ +4.3 +41.0	{ -0.5 n.a.	{ +38.6 +5.7	{ -2.5 +21.2	{ +72.5 +18.6
Galesburg	\$ 122	5,062	\$3,651		n.a.	\$ 46
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ +149.0 +134.6	{ -4.4 n.a.	{ n.a.		{ +71.0 -4.4
Peoria	\$ 936	45,590 ^c	\$16,345		\$ 197	\$ 283
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ +19.2 +280.5	{ +4.0 +18.3	{ -3.8 n.a.	{ +38.0 +4.0	{ +1.0 +24.2
Quincy	\$ 26	6,964	\$4,631		\$ 33	\$ 99
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ -94.6 -98.0	{ +5.1 +19.8	{ -3.0 n.a.	{ +50.0 +13.0	{ +1.5 +5.4
Springfield	\$ 890	22,096 ^c	\$12,129		\$ 91	\$ 256
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ +68.9 +52.4	{ +10.9 +13.2	{ -3.1 n.a.	{ +41.5 +11.3	{ +10.0 +20.1
SOUTHERN ILLINOIS						
East St. Louis	\$ 249	10,878	\$7,762		\$ 124	\$ 97
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ +186.0 +211.3	{ +7.3 +22.7	{ -11.0 n.a.	{ n.a.	{ -3.8 +17.2
Alton	\$ 315	10,591	\$4,514		\$ 30	\$ 44
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ +279.5 +303.8	{ +1.1 +24.1	{ +2.5 n.a.	{ n.a.	{ +12.0 +11.5
Belleville	\$ 214	4,760	\$3,769		n.a.	\$ 58
Percentage Change from.....	{ Nov., 1950..... Dec., 1949.....	{ +47.6 +568.8	{ +9.7 +17.4	{ -8.5 n.a.	{ n.a.	{ +79.0 +5.2

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for November, 1950, the most recent available. Comparisons relate to October, 1950. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

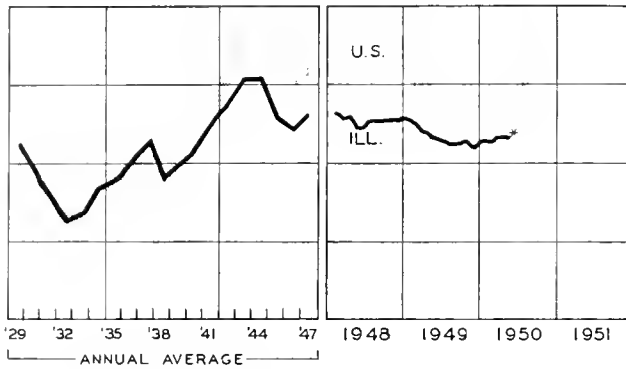
^c Includes immediately surrounding territory.

n.a. Not available.

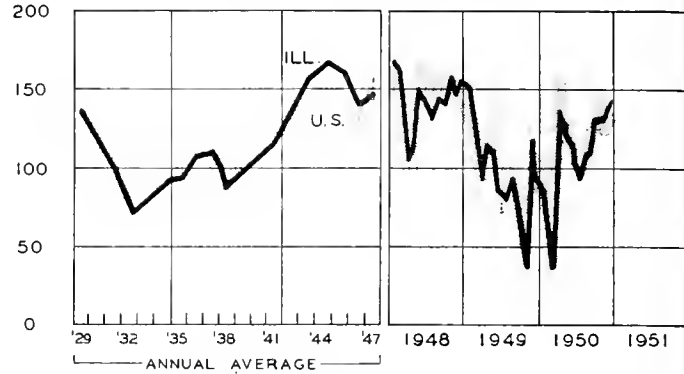
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

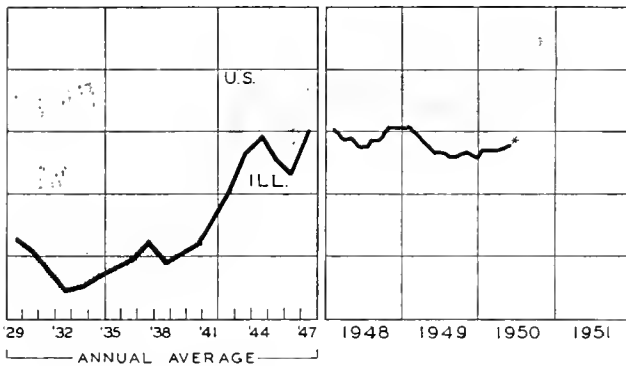
EMPLOYMENT-MANUFACTURING



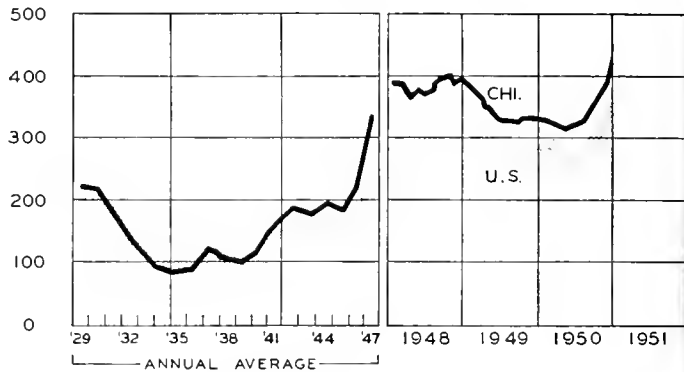
COAL PRODUCTION



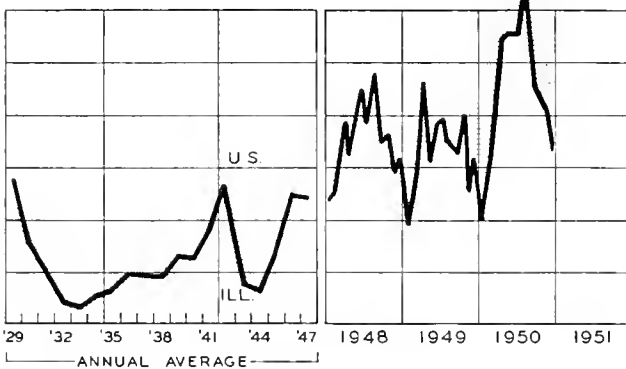
PAYROLLS-MANUFACTURING



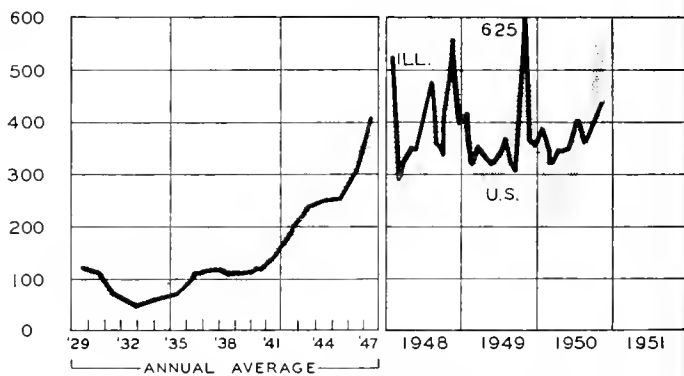
BUSINESS LOANS



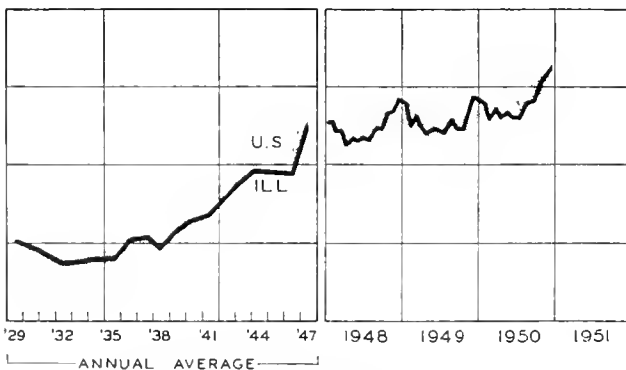
CONSTRUCTION CONTRACTS AWARDED



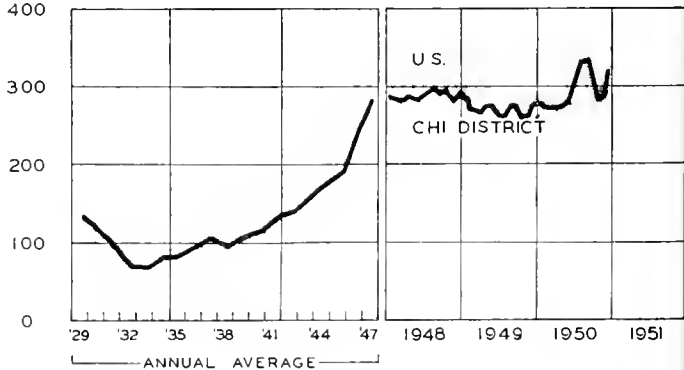
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



* Illinois figures being revised.

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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VOLUME VIII

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HIGHLIGHTS OF BUSINESS IN FEBRUARY

With the end of February it became abundantly clear that the economy was forging ahead in the early stages of rearmament with surprisingly little disruption of productive facilities or of the labor market. There has been almost no increase in unemployment and no noticeable let-down in production or income. The Federal Reserve index of industrial production has been rising with only a slight interruption since last fall, and would have recorded another gain in February had it not been for the recent railroad and textile strikes. As it is, such key industrial indicators as steel ingot production, electric power output, and freight carloadings are at record levels, and despite the flood of recent government orders diverting materials to military production, the output of consumer durables has so far been sufficient to meet demand.

Price Advances Moderated

Prices moved upward again in February though there were indications that some leveling off was beginning. The highly sensitive index of 28 commodity prices rose less than one percent during the month as compared with a rise of over 4 percent during January. The rate of increase in the Bureau of Labor Statistics wholesale price index has also slackened; the 1.1 percent rise in this index is less than half the amount of its increase in January. In the last two weeks of February the index actually fell off slightly, thereby interrupting eighteen consecutive weeks of advances.

Even if the upward trend of wholesale prices has been arrested, consumers' prices are likely to keep on rising for some weeks to come as a result of the usual lag between the two sets of prices. On January 15, the consumers' price index on the new basis (see p. 5) stood at 181.5, up about 1.7 percent in the month. Higher meat prices, the main factor in the rise, also acted to lift farm prices in February. Prices paid by farmers rose, too, but not as much as prices received, with the result that the parity ratio advanced 3 percent to 113, the highest point since July, 1948. A further discussion of farm prices is presented on pages 8 and 9.

Labor Market Tight

More Americans were gainfully employed in February than ever before at that time of the year. Nearly 59 million people were employed in civilian occupations, almost the same number as in January and 2 million more

than last February. Nonfarm employment was at a record February level of 52.9 million.

The demands on manpower by the military forces and the record operations of the economy prevented the usual post-holiday seasonal increase in unemployment. At 2.4 million last month, unemployment was slightly below January and about half last February's figure of 4.7 million. It was only last February that postwar unemployment reached a peak and uncertainty prevailed regarding the ability of the economy to stage a sustained recovery.

Construction at February Peak

Construction activity continues to set new records. The value of new construction put in place in February amounted to nearly \$2 billion, a new high for the month, 22 percent above the February, 1950, level. Private construction accounted for \$1.5 billion of this total.

Although almost all types of building were being put up in larger volume than a year ago, nonresidential construction had the largest gains. In the private sector, industrial building was up 91 percent over last year and commercial construction had risen by 70 percent. Private home building was up by one-fifth. The main gains in the public sector were recorded in the construction of factories, schools, and, of course, military installations.

Manufacturing Continues to Expand

Despite a record volume of sales, manufacturers in January were again saddled with more orders than they could handle. Sales of manufacturers rose 8 percent over December to \$23 billion at a seasonally-adjusted rate. New orders, however, jumped 15 percent, with new orders for durable goods up 17 percent. As a result, unfilled orders exceeded sales for the month by \$3.7 billion. Total unfilled orders at the end of the month amounted to \$41.7 billion, seven-eighths of which was for durable goods.

Inventory holdings of manufacturers have been growing at the rate of about a billion dollars a month since last September, and the rise in January stocks conformed to this upward trend. At book values, total inventories on manufacturers' shelves aggregated \$35.2 billion at the end of the month. Mainly responsible for this increased manufacturing activity is the recent spurt in consumer buying and the accelerated defense procurement program. The rise in prices is another factor acting to raise dollar volume.

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Status of the E Bonds

The value of United States Savings Bonds outstanding totals \$58 billion, or almost a fourth of the entire Federal debt. Of these, almost \$35 billion, or about 60 percent, are E Bonds, the ten-year bonds generally sold to small savers during World War II. Bonds from the years of heaviest sales—1942 through 1945—will be maturing in the period ahead. Since refunding of these seems likely to coincide with the financing of the new mobilization programs, they are commonly regarded as a major problem of government finance.

The Treasury has announced as its program for dealing with this problem the automatic extension of maturities for another ten years, continuing the same over-all rate of interest and other important features of the present bonds, such as the option of paying taxes currently or at final maturity on interest earned. The question now raised by some of the experts is, "Aren't greater inducements to bondholders needed in view of growing inflation fears?"

Redemptions Spurred by War Scares

During the past year, redemptions of E and earlier series savings bonds have consistently exceeded sales. Distinct peaks in the rate of redemptions followed the two waves of scare buying experienced since the outbreak of war in Korea. In January, redemptions rose to a new high since early 1946. This wave of scare buying was induced, of course, by fears of shortages, but seems to have been aggravated by the ineptitude of stabilization officials in "talking" controls before being ready to act. In addition, higher taxes and controls on consumer credit created special financing needs that could most readily be met by cashing bonds. In February, as scare buying faded, redemptions also dropped back.

What seems to be lost sight of in recent discussions of these redemptions is that the bonds were originally introduced as a temporary means of mopping up savings. The sales drives emphasized both safety and liquidity: There could be no better reserves against postwar rainy days; and the income saved would be available and ready when wartime restrictions were lifted and desired goods were again in production. Early redemptions were, in short, clearly contemplated; and most analysts anticipated heavy postwar cashing of these bonds.

Since the sale of E Bonds first began in May, 1941,

almost half the total in terms of original sales price have been redeemed, with the greatest concentration of redemptions in bonds of the lowest denominations. Thus, almost 70 percent of the \$25 bonds and 60 percent of the \$50 bonds issued have already been redeemed, whereas only 35 percent of the \$500 bonds and 30 percent of the \$1,000 bonds have been redeemed. Thus, there has been a distinct shift in holdings—from the hands of the small saver to the portfolio of the large investor.

Tied up with this as an unexpected feature of the postwar years was the continuing high rate of new bond sales. These matched redemptions from the summer of 1946 to the spring of 1950, so that the total value of bonds outstanding increased with the accrual of interest income. Last year's shift to net redemptions was effected more by the decline in sales than by the increase in redemptions. Still, the close correlation of month-to-month changes in sales and redemptions indicates that many redemptions result in conversions or repurchases rather than in complete withdrawal of funds from the savings bonds.

Future of the E Bond

Recently, dire forebodings have been voiced. It is frequently said that inflation has made bonds an undesirable investment. Public disfavor is supposed to have reached such a state that the government won't be able to sell bonds as it did in the last war, at least not unless some recommended action is taken, such as raising the interest rate or providing a cost-of-living escalator to guarantee the purchasing-power value of the bond.

Among the developments cited as evidence of flight from the dollar is the advance of the stock market to 20-year highs. But, despite the Federal Reserve's psychological gesture in raising margin requirements to 75 percent, there is no evidence of rampant inflation or speculative abandon in the stock market. Prices of common stocks are still relatively low in relation to earning power. Dividend yields continue at over 6 percent, or half again as much as might be expected at the peak of a speculative boom. And the spread between dividend yields and bond yields is considerably higher than in past boom periods. The market action up to this time looks like an entirely reasonable effort to take advantage of the best available investment opportunity.

Nor does the bidding up of stock prices have any direct inflationary consequences. The buyer merely transfers the cash, and the problem of what is to be done with it, to the seller, and the economy is not necessarily affected. The speculative highs of 1929 were reached at a time when deflationary tendencies dominated.

Nevertheless, bondholders are being widely told that the continuation of recent price advances will inevitably reduce the value of their investments, and that they should insist on higher returns or seek inflation "hedges." This bit of "wisdom" is based, of course, on a mere assumption about the future trend of prices. There can be no really conclusive argument that prices will be higher, or even as high, ten years from now—and that is particularly true of the prices of things that may be used to hedge against inflation.

Any such possibility must, of course, be evaluated by the investor in the light of his alternatives. He must always face the question of how much it would be wise to put in the form of speculative and possible illiquid assets. As far as common stocks are concerned, there seems to be little unanimity of opinion about the outlook.

(Continued on page 9)

COMMERCIAL PRINTING

Printing in America developed and grew primarily in connection with the production of newspapers rather than with book publishing or general commercial printing. Until after the Civil War almost all commercial or job printing concerns in the United States were small firms with limited facilities, whose largest and most reliable customers were theaters, railroads, and hotels.

During the Gay Nineties, however, three revolutionary developments in the graphic arts brought a new era of prosperity to commercial printers. Mergenthaler's invention of the linotype machine, which made high-speed typesetting possible, was followed by the development of the halftone method of photoengraving pictures for reproduction in print. Finally, it was discovered that by making separate engravings for superimposing yellow, red, blue, and black impressions it was possible to obtain an illustration in full color.

Chicago, the Center of the Industry

Since the early 1900's, when Chicago craftsmen were responsible for such printing developments as the four-color process and photolithography, Chicago has been a commercial printing center. The ready availability of skilled labor in this area has been one of the outstanding reasons for its importance in this industry.

As the shipping center of the United States, Chicago is also the most economical location for the printing of national publications. This factor helped to make Chicago the nation's leading magazine printing center after the Post Office Department put magazine postage on a zone basis.

The three largest commercial printing companies in the world are located in Chicago. Cuneo Press, the W. F. Hall Printing Company, and R. R. Donnelley and Sons handle the bulk of the printing contracts not only for the nation's large magazines, but for mail order catalogs, encyclopedias, and business and telephone directories.

Chicago equipment is so extensive that orders from the city's outstanding mail order houses for catalogs running up to 1,200 pages each, with much of the work in four colors, are executed as a matter of routine operation. The city's commercial presses also turn out a tremendous volume of pulp magazines, paper-bound "pocket" books, food cartons, and labels of all kinds.

Hundreds of smaller establishments downstate join with Chicago printers to make Illinois the leading state in the general commercial printing industry, both in number of employees and in value of product.

In 1947 the 37,000 workers employed by more than 1,000 Illinois job printing firms produced printed material valued at \$304 million, 20 percent of the national total of \$1.5 billion. Not included were firms engaged in newspaper and book publishing and printing, which are considered individual industries. Although some commercial printers do job newspaper and book printing, they provide a very minor portion of the business of the industry.

Variety of Printing Methods

In addition to the standard letterpress method of printing directly from type and photoengravings, or from plates molded from type, there are a number of printing devices which use plates prepared by means of photographic negatives.

A page layout of original copy and illustrations may be photographed and the negative or positive used to make a pattern on a printing plate. The pattern may be incised, or etched in, for gravure printing which prints from a depressed surface; or it may be etched out, leaving a slightly raised "type" area for offset printing. A third type of plate is used in photolithography, which also prints by the offset method from a smooth surface on which only the portions to be reproduced retain ink.

The offset method of printing, which is relatively new, does not make impressions directly from a plate, but prints first on an extra cylinder which then transfers the ink to paper. Although offset accounts for only a small percentage of the total business of the printing industry, it is expanding more rapidly than the older letterpress method, largely because of its flexibility.

Offset is commonly used for reprints since its photographic process makes the resetting of type unnecessary. Because it also eliminates expensive photoengravings, it is especially useful for the original printing of material containing a large number of illustrations.

Modern job printers in the general commercial printing industry offer a wide range of facilities, with large concerns usually equipped to do offset and gravure work as well as letterpress printing. Shops that specialize in only one of the many steps of the printing process, such as typesetting or photoengraving, are classified in separate industries, in all of which Illinois is a leading state. General commercial printing, however, is the giant of the field with 200,000 employees and 12,000 establishments, more than twice the total number of firms specializing in any one process.

Constantly Improving Processes

The keen competition between letterpress and offset printing has been an effective stimulus in the development of new processes, but much of the recent progress in engraving techniques and presswork would have been impossible without the large printing market provided by mass circulation media. This is especially true of the costly development of color printing and accompanying improvements in press design necessary to print one color on another with an exact matching, or register, of lines.

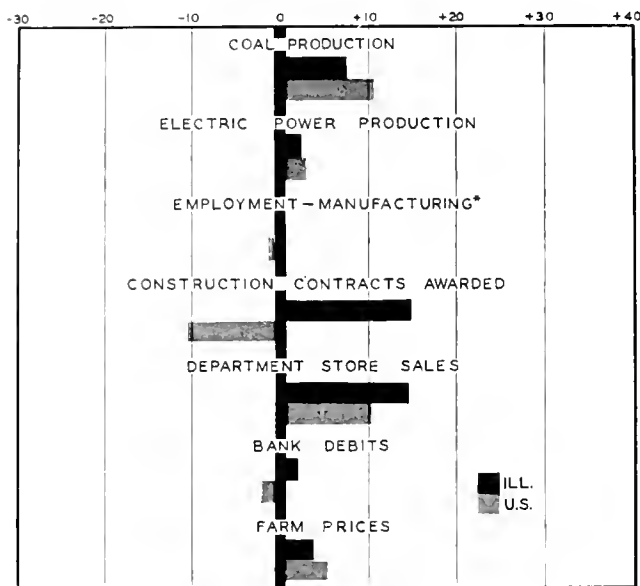
Although recently there have been few radical changes in printing methods, there is constant progress in the direction of greater mechanical efficiency. Yesterday's high speed of a few hundred impressions an hour has been increased to 2,000 or more, and close register has become hairline accuracy. New developments appearing every day contribute to the continual improvement of printing methods and techniques.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes December, 1950, to January, 1951



* Figure for Illinois not available.

ILLINOIS BUSINESS INDEXES

Item	January 1951 (1935-39 = 100)	Percentage Change from	
		Dec. 1950	Jan. 1950
Electric power ¹	346.9	+ 2.3	+22.8
Coal production ²	149.6	+ 7.0	+84.3
Employment—manufacturing ³	n.a.	.....	.....
Payrolls—manufacturing ³	n.a.	.....	.....
Dept. store sales in Chicago ⁴	286.0 ^a	+14.6	+21.2
Consumer prices in Chicago ⁵	185.4 ^b	+ 1.1	+ 7.3
Construction contracts awarded ⁶	368.8	+14.7	+86.9
Bank debits ⁷	375.7	+ 1.3	+31.3
Farm prices ⁸	264.7	+ 3.5	+30.0
Life insurance sales (ordinary) ⁹	187.7	- 8.5	+15.1
Petroleum production ¹⁰	225.2	- 3.3	- 7.4

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Repts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a Seasonally adjusted. ^b New series. Old series index for January was 186.4. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	January 1951	Percentage Change from	
		Dec. 1950	Jan. 1950
	Annual rate in billion \$		
Personal income ¹	239.0 ^a	- 0.7	+11.4
Manufacturing ¹			
Sales	276.0 ^a	+ 8.0	+42.0
Inventories	34.9 ^{a, b}	+ 2.6	+20.3
New construction activity ¹			
Private residential	10.8	- 8.1	+21.4
Private nonresidential	8.0	- 5.1	+20.5
Total public	6.0	- 9.5	+20.0
Foreign trade ¹			
Merchandise exports	11.7	- 8.6	+31.2
Merchandise imports	12.3	+18.6	+64.0
Excess of exports	- .6	....	....
Consumer credit outstanding ²			
Total credit	19.9 ^b	- 0.9	+21.6
Installment credit	13.2 ^b	- 1.7	+22.3
Business loans ²	18.0 ^b	+ 1.0	+29.9
Cash farm income ³	n.a.	....	....
	Indexes (1935-39 = 100)		
Industrial production ²			
Combined index	219 ^a	+ 0.9	+19.7
Durable manufactures	266 ^a	- 0.8	+27.3
Nondurable manufactures	198 ^a	+ 1.0	+10.6
Minerals	163 ^a	+ 3.8	+25.4
Manufacturing employment ⁴			
Production workers	165	+ 0.6	+13.0
Factory worker earnings ⁴			
Average hours worked	108	- 1.9	+ 2.3
Average hourly earnings	259	+ 0.6	+ 9.4
Average weekly earnings	281	- 1.3	+11.9
Construction contracts awarded ⁵	441	-10.7	+42.7
Department store sales ²	360 ^a	+10.4	+27.7
Consumers' price index ⁴	182 ^c	....	....
Wholesale prices ⁴			
All commodities	223	+ 2.7	+18.8
Farm products	255	+ 3.5	+25.4
Foods	231	+ 1.8	+17.8
Other	210	+ 2.2	+16.7
Farm prices ³			
Received by farmers	280	+ 4.9	+27.7
Paid by farmers	218	+ 2.6	+ 9.7
Parity ratio	110 ^d	+ 1.9	+15.8

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.

^a Seasonally adjusted. ^b As of end of month. ^c New series 181.5; old series 181.6. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1951					1950
	Feb. 24	Feb. 17	Feb. 10	Feb. 3	Jan. 27	Feb. 4
Production:						
Bituminous coal.....thous. of short tons..	1,675	1,781	1,408	1,569	1,902	1,090
Electric power by utilities.....mil. of kw-hr.....	6,833	6,905	6,957	7,099	6,970	6,062
Motor vehicles (Wards).....number in thous.....	188.7	168.6	106.4	140.7	158.3	120.2
Petroleum.....thous. bbl.....	5,863	5,855	5,784	5,861	5,988	4,883
Steel.....1935-39 = 100.....	222.8	220.5	216.5	226.8	225.9	198.8
Freight carloadings.....thous. of cars.....	735	741	573	651	784	612
Department store sales.....1935-39 = 100.....	274	272	273	234	278	226
Commodity prices, wholesale:						
All commodities.....1926 = 100.....	183.3	183.4	182.3	180.9	180.0	151.8
Other than farm products and foods.....1926 = 100.....	170.9	170.8	170.2	170.0	169.3	145.9
28 commodities.....August, 1939 = 100.....	390.4	387.8	389.9	389.4	386.1	247.7
Finance:						
Business loans.....mil. of dol.....	18,588	18,449	18,321	18,120	18,018	13,918
Failures, industrial and commercial.....number.....	127	165	191	159	193	199

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Off Slightly

According to the Federal Reserve Board's preliminary estimates, industrial production during February was a little below January's postwar peak, largely because of difficulties created by the rail and textile strikes. Steel production was cut by more than 4 percent early in the month but later rose to near-capacity levels, and averaged 99 percent of capacity for the month, equivalent to almost 2 million tons weekly. Automotive output followed much the same pattern, dropping below 110,000 vehicles per week and then rising to about 180,000 cars and trucks weekly at the end of the month.

Farm and Consumers' Prices Advance

Farm prices received continued their sharp climb, rising 4 percent between mid-January and mid-February. At 313 (1910-14 = 100) on February 15, this index exceeded the earlier postwar high set in January, 1948, by 2.3 percent. Much of the rise was attributed to increased livestock prices. Prices paid by farmers also rose from 272 to a new high of 276, mainly as a result of higher food, feed, and building material prices. Because of the more rapid advance in prices received, the parity ratio rose from 110 to 113, the highest level since July, 1948.

In view of the importance of the parity price system to price stabilization, it is worth while to note that the prices of only two basic crops—cotton and rice—exceeded the effective parity prices as of February 15. Three—wheat, corn, and peanuts—are 6 to 15 percent below effective parity prices. Of the other supported items, only four livestock groups—beef cattle, hogs, lambs, and veal calves—are priced above effective parity. Prices of some of the remaining supported commodities are as much as 50 percent below parity prices. These prices will not be subject to control by the Office of Price Stabilization so long as they remain below parity.

The consumers' price index showed a substantial advance for the second consecutive period in the month

ended January 15 and reached another new record. A 1.7 percent increase carried the index to 181.6 percent of the 1935-39 average. All groups showed increases, again led by foods, which rose 2.6 percent, and housefurnishings, which climbed 2.1 percent. Apparel rose 1.5 percent; other groups showed advances of less than 1 percent.

The Bureau of Labor Statistics has started publication of its revised consumers' price index. The new index makes corrections for new housing units not under rent control, for changes in population as shown in the 1950 Census, and for changes in consumption habits such as shifts in the proportion of income allotted to each group of commodities and changes in the actual commodities included. According to the revised calculation, the over-all index stood at 181.5 on January 15, only slightly different from the index calculated on the old basis. For the next several months, the BLS proposes to calculate and publish the index on both bases to facilitate the shift from the old to the new by unions and employers.

Employment Off Slightly

Employment, at 58,905,000 in the February survey week, set a new high for the month, though off somewhat from the January level. The small declines which occurred were much less than usual for the season. Unemployment showed a further decline of nearly 100,000, as more than 200,000 workers left the civilian labor force. Bureau of Census data, in thousands of workers, are as follows:

	February 1951	January 1951	February 1950
Civilian labor force.....	61,313	61,514	61,637
Employment.....	58,905	59,010	56,953
Agricultural.....	5,930	6,018	6,223
Nonagricultural.....	52,976	52,993	50,730
Unemployment.....	2,407	2,503	4,684

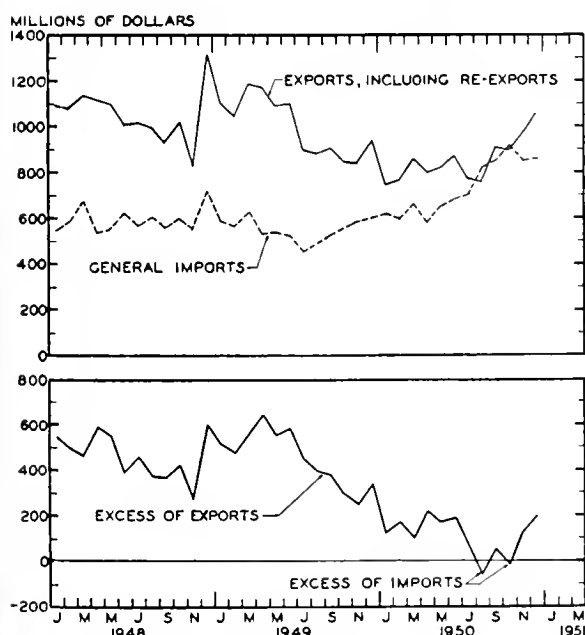
Average weekly hours worked dropped from 41.4 at mid-December to 40.6 hours at mid-January, mainly in response to seasonal slackening or to short shutdowns for inventory-taking. However, the reduction of hours in metals and metal products factories was somewhat larger than usual. These industries, the first of those likely to be affected by the transition to mobilization, have expanded employment rapidly and lengthened the work week since last June; January's cuts leave the work week at about the June level. Despite the declines, the length of the average work week in many durables industries remained at or above 41 hours, and in machinery (except electrical) the work week averaged 43.5 hours.

Trade Pattern Shift in 1950

The United States foreign trade pattern showed a pronounced shift during 1950. As shown in the accompanying chart, exports during 1950 were down substantially from the previous two years, whereas imports rose fairly steadily. Total exports for 1950 of \$10.3 billion were off about 15 percent from 1949, but imports rose more than 30 percent to \$8.8 billion. The excess of exports over imports has fallen from its high 1947 monthly average of \$800 million to slightly over \$450 million in 1948 and 1949 and to the low level of \$110 million in 1950. In August and October, 1950, monthly imports exceeded exports for the first time since 1937.

The change was brought about by a number of factors, chiefly the outbreak of hostilities in Korea, a good measure of recovery abroad, and a decrease in American aid to foreign countries. Sharp increases in the prices of the

U. S. EXPORTS AND IMPORTS



Source: U. S. Dept. of Commerce.

raw materials we buy overseas, combined with our greater need for such commodities as tin and rubber, have been a large element in the increased value of imports. Reduced exports toward the end of 1950 reflected the greater self-dependence of many foreign countries in which rising production made imports less necessary.

Retail Sales Remain High

Although dollar value of retail sales was down from December to January, the \$2.6-billion decrease was less than the usual seasonal decline. Total sales of \$11.8 billion were at the highest January level on record and 25 percent over January, 1950. Sales after seasonal adjustment amounted to \$13.3 billion, 9 percent over the December level. Both durables and nondurables shared in the gain, durables showing the larger percentage increase.

Weekly department store sales during February remained well above the levels of corresponding weeks in 1950, ranging up to one-fourth higher, despite the adverse weather early in the month. In the Chicago district, sales were up as much as 35 percent over 1949 levels.

National Product at New High

The gross national product rose steadily during 1950 as volume expanded and prices rose, reaching a total of \$280 billion for the year, 9.5 percent over 1949 and 8.0 percent over the previous high reached in 1948. More than three-fourths of the advance over 1949 reflected gains in volume. Nearly all of the rise appeared in personal consumption expenditures and gross private domestic investment. A large proportion of consumers' spending, which rose with the advance in disposable personal income, went into durable goods, with the continuing postwar demand for such items as automobiles and household goods cited as the chief cause. About half the sharp rise in domestic investment occurred in business

stocks, in which a \$3.7-billion inventory liquidation in 1949 was replaced by an accumulation of \$4.1 billion of stocks in 1950. Investment in facilities and equipment both showed substantial gains over the previous year.

GROSS NATIONAL PRODUCT OR EXPENDITURE (billions of dollars)

	1949	1950	4th Qtr. 1950*
Gross national product.....	255.6	279.8	300.3
Personal consumption.....	178.8	190.8	195.8
Durable goods.....	23.8	29.2	30.0
Nondurable goods.....	98.5	101.6	104.3
Services.....	56.4	59.9	61.5
Domestic investment.....	33.0	49.4	60.2
New construction.....	17.3	21.8	22.9
Producers' durable equipment	19.5	23.4	26.1
Change in business inventories	-3.7	4.1	11.2
Nonfarm inventories only..	-3.1	4.1	11.0
Foreign investment.....	.4	-2.5	-3.4
Government purchases.....	43.3	42.1	47.6

INCOME AND SAVINGS

National income.....	216.8	235.6†	n.a.
Personal income.....	206.1	223.2	234.9
Disposable personal income.....	187.4	202.7	211.6
Personal saving.....	8.6	11.9	15.8

* Seasonally adjusted, at annual rates.

† Estimated by the Department of Commerce, which assumed for the calculation that fourth-quarter corporate profits before taxes were the same as in the third quarter.

Comparisons of quarterly data are much more striking than the year-to-year relationships. Total value of GNP rose from \$254 billion (annual rate) for the last quarter of 1949 to \$300 billion for the corresponding period of 1950, with more than three-fifths of the rise occurring during the second half of 1950. The most substantial changes in component categories took place in domestic investment, in which plant and equipment expenditures rose by nearly a third over the fourth quarter of 1949 and inventories were marked by a net shift of nearly \$17 billion from the last quarter of 1949 to the corresponding period of 1950.

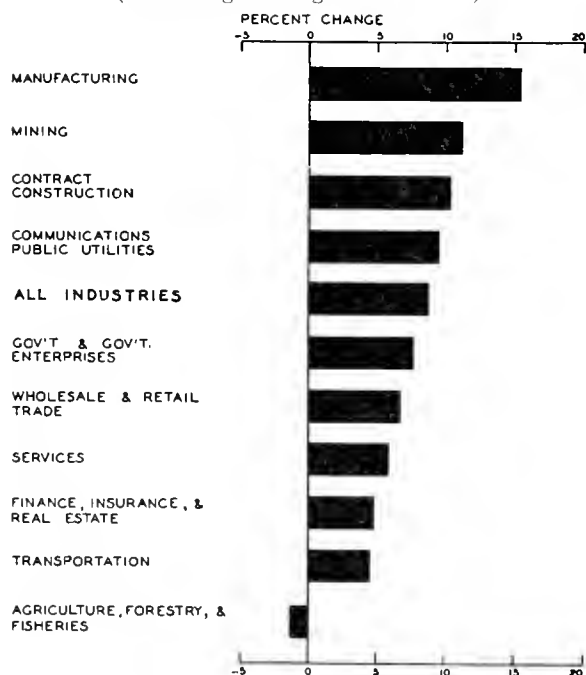
National income, although up a little less than GNP, nevertheless rose 8.7 percent in 1950 to an estimated \$236 billion. As shown in the accompanying chart, the largest gain occurred in manufacturing, up more than 15 percent over the 1949 level in response to the heavy demands of consumers, business, and government. An 11 percent increase in mining income was closely connected with the manufacturing rise; the 10 percent increase in construction reflected the very great advance in building activity during 1950. Only agriculture showed a small decline from the previous year, mainly as a result of the crop-acreage cutbacks planned in late 1949.

Installment Credit Off

Consumer credit declined seasonally in January, falling nearly \$200 million to \$19.9 billion. The decline, however, was considerably smaller, both in dollars and percentage-wise, than were the December-January drops in the previous three years. The entire decrease this year resulted from a sizable decline in installment credit, which fell by \$212 million to \$13.3 billion. Credit curbs were cited by the Federal Reserve Board as the chief element in the decline, since sales of automobiles and other durables remained at a high level during January. Noninstallment credit increased slightly during the month, contrary to its usual seasonal pattern.

Business loans continued to rise during the month. The total increase of \$613 million in loans to business firms raised total loans outstanding to a total of \$18.7 billion.

**NATIONAL INCOME BY MAJOR
INDUSTRIAL DIVISIONS**
(Percentage Change 1949 to 1950)



Source: Office of Business Economics,
U. S. Dept. of Commerce.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Coal Pipe Line

The Pittsburgh Consolidation Coal Company, the world's largest producer of bituminous coal, has announced that it will build a demonstration pipe-line system in Eastern Ohio to transport coal mixed with water to form a slurry. The system will represent the final stage in the company's investigation of this method of transporting coal from mine to market, which it hopes to use commercially. The coal will be washed, crushed, and fed with water into the pipe line. It will be moved through the pipe under pressure by means of pumps designed for that purpose, and equipment at the end of the line will remove the coal and dry it.

Plating Process Saves Tin

One of the nation's largest tinplate producers, the Weirton Steel Company, Weirton, West Virginia, has perfected a tinplating process it says will conserve the nation's strategic tin supplies. Savings of 25 to 50 percent are said to result from electrolytically plating tin on one side with the amount of tin coating necessary to protect the contents of the tin can, and on the other side with only the amount of tin needed to protect the outside of the can from exposure, rather than giving the basic steel the same amount of coating on both sides. This reduced tin requirement will be of increasing significance since the 20-percent government cutback in the use of tin by the industry during the first quarter of 1951 will be raised to 30 percent in the second quarter.

Rubber Belt for Power Transmission

The United States Rubber Company (Rockefeller Center, New York 20, N. Y.) is now producing a rubber and fabric belt that is said to be an outstanding advance in power transmission. Called the Gilmer Timing Belt, it will not slip even at speeds up to 16,000 feet per minute and permits split-second precision timing. The new belt is expected to replace flat belts, V belts, chain drives, and gears in many applications.

New Alloy Steel

A recently developed type of alloy steel designed to conserve standard alloying elements now in short supply has been announced by the American Iron and Steel Institute. By utilizing plentiful domestic supplies of boron the industry expects to cut its use of government-restricted nickel, chromium, and molybdenum by 50 percent. Work on the new process was begun soon after the outbreak of war in Korea in anticipation of a shortage of alloying elements, and boron-alloy steel is to be available within a few weeks for use in mobile equipment, machine tool parts, guns, and other ordnance production.

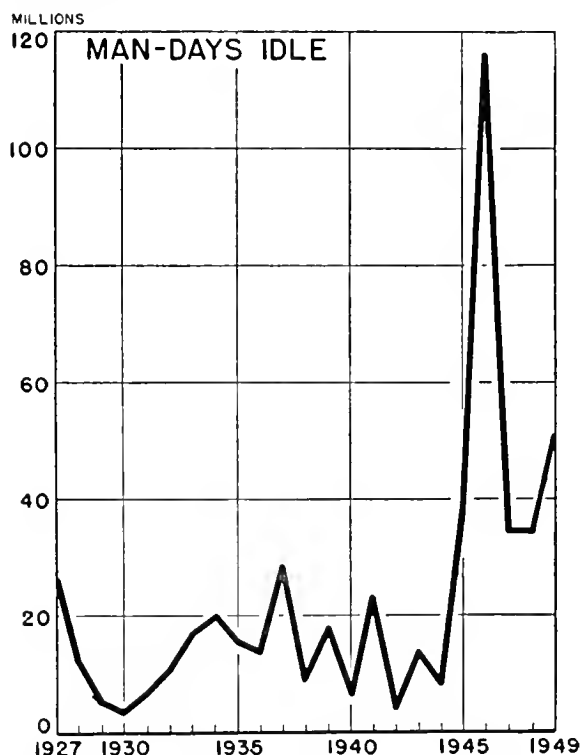
Marginal Sources of Metal

Plans are in progress for the reclamation of strategic materials from former wastes to meet wartime demands. An article in the February *Industrial Bulletin* of Arthur D. Little, Inc., research consultants, reveals that such exploitation often turns a marginal source of metal into an economic producer. Many rare metals can be extracted

from wastes, even though direct recovery from the ore would be impractical. The Union of South Africa expects to recover a substantial amount of uranium from gold ores, and United States waste piles are being worked for such vital war materials as fluorite, lead, tin, and zinc. During the last war many slag dumps around steel mills were combed for the masses of iron that sometimes escape when the molten slag is run off. The Bureau of Mines is carrying on a similar program, now in the pilot-plant stage, to reclaim manganese from slag, which may yield an estimated 300,000 tons of manganese annually.

Analysis of Strikes

The historical changes in the causes of strikes are reviewed in an article entitled "Analysis of Strikes, 1927-1949" which appeared in the January issue of the *Monthly Labor Review*. Although the immediate reaction to World War II was a sharp decline in work stoppages, there was a substantial number of strikes between 1942 and 1945. Firm wage stabilization, however, caused a shift in labor demands from pay increases to improved working conditions and policies such as vacation and holiday pay. Although the number of strikes during this period was high, their average duration was low, reflecting frequent unauthorized stoppages. As shown by the chart, reconversion first resulted in an increase in labor stoppages and then strike activity declined somewhat but remained greater than before the war. Although wage increases have predominated as issues for postwar strikes, at first to offset declines in take-home pay and later to match rising living costs, the emphasis in 1949 was on pensions, which are likely to remain major labor issues in the future.



Source: Bureau of Labor Statistics.

WAGES AND WAGE STABILIZATION

MORRIS A. HOROWITZ, Research Assistant Professor, and
SOLOMON B. LEVINE, Research Associate, Institute of Labor and Industrial Relations

Since the outbreak of the Korean conflict, in June, 1950, the emphasis in negotiating labor contracts has shifted markedly. During 1949 and the early months of 1950 the Bureau of Labor Statistics consumers' price index remained relatively stable, thereby eliminating the unions' principal argument for higher wage rates. The unions, therefore, stressed pension and welfare demands in lieu of increased wage rates.

Recent Wage Developments

After the start of the Korean situation, and particularly after the unexpected reversals of the UN forces in November, the need for immediate wage increases plus assurances of further advances was stressed by unions. Attempts by unions to attain their demands were generally successful. The type of agreement widely followed was that concluded by General Motors and the United Automobile Workers union in May, 1948, and renewed in May, 1950. The contract provided annual wage increases for raising the standard of living of the employees, commonly called the annual improvement factor. This annual improvement factor was based on the trend of the average over-all national increase in productivity. In addition, a cost-of-living allowance provision—the escalator clause—was included, calling for quarterly adjustment of wages based on changes in the consumers' price index.

No major manufacturing companies followed these novel provisions of the 1948 GM contract during the first two years of its existence. On May 29, 1950, a new agreement between GM and UAW went into effect, to continue for a five-year term with no provision for reopening on wages or other matters. This new agreement carried forward the two basic principles underlying the wage provisions of the 1948 contract. No change was made in the cost-of-living escalator clause, but the annual improvement factor was increased from three to four cents an hour.

The new pattern that has emerged since last June is largely based upon the provisions of the GM contract. Most major auto manufacturers quickly accepted the GM-type agreement. Companies in electrical products, machinery, chemicals, and textiles have followed suit.

In addition to the many settlements calling for periodic increases during the term of the contract, a number of companies voluntarily granted wage advances, soon after the Korean war began, without the formality of a wage reopening. One of the first such instances was a 10-cent an hour increase offered by the Chrysler Corporation late in August, 1950, which was immediately accepted by the union. The Aluminum Corporation of America also voluntarily offered a wage increase, amounting to 10 percent. This development set off a wave of union requests, which were generally granted, for wage increases in advance of the dates specified for wage reopening in the contracts.

Why the Shift?

The possibility of cost-of-living rises and governmental wage controls following the outbreak of hostilities in Korea prompted many union leaders to press for contract provisions similar to those existing in the GM agreement. And, in turn, fear of manpower shortages and

disrupted labor relations motivated managements to accept such agreements. These contracts are generally of long-term duration, generally 3 to 5 years, reflecting the basic desires of management and labor for a period of stable relations.

The shift in emphasis from social security benefits to provisions for increases in workers' earnings was partly a reflection of the expectation of rapidly rising living costs. The fear was partly substantiated by the fact that the consumers' price index did rise in July by 2.3 points over June. In addition, this July level represented a quarterly increase over April of 5.2 points, giving the workers under the GM contract a 5-cent per hour increase on September 1. This GM increase was an added spur to other unions to seek similar benefits through an automatic escalator clause. The anticipated rapid increases in the cost of living, similar to that experienced between June and July, have not materialized as yet; between July and November the monthly rise in the consumers' price index was one point or less, and the total rise in this four-month period was 3.1 points, or less than 2 percent. However, food prices have again moved upward noticeably, exerting pressure for further rises in the over-all index.

The demands for immediate and future wage advances soon after the Korean outbreak were also based upon anticipation of wage controls. These were crystallized by the enactment of the Defense Production Act in September, even though it was not until December that any concrete action was taken by the newly-formed Economic Stabilization Administration.

Under the Defense Production Act of 1950, whenever the Economic Stabilization Administration imposes controls on prices in a particular industry, the wages of that industry must also be stabilized. The first of such moves came on December 21, when the Administrator ordered a freeze in the wage rates of those workers making passenger cars, following its order to roll back auto prices to December 1. This freeze is to continue the status quo of wages in the industry until March 1, 1951, the date when the next cost-of-living adjustments are due under the GM escalator clause. In the meantime, the Wage Stabilization Board is to consider what policy to follow after the March 1 deadline. The auto wage freeze, it should be noted, is a nominal one, since wages are not due to be reconsidered under the GM contract anyway until March 1.

Is Wage Stabilization Necessary Now?

It may well be asked whether some form of wage stabilization is needed at this time or in the near future. Average weekly earnings in manufacturing industries have increased since the outbreak of the Korean hostilities; the rise between June and October, 1950, was \$3.14, or slightly over 5 percent. During this same period the cost of living, as represented by the consumers' price index, rose by only 2.7 percent, approximately half as fast as gross weekly earnings.

However, it should not be concluded that earnings have kept pace with the upward rise in the cost of living. In the period from June to October, 1950, net spendable earnings, computed by the Bureau of Labor Statistics and roughly comparable with a worker's "take-home" pay,

rose by only 2.2 percent, as against the 2.7 percent rise in the consumers' price index. A worker without dependents, for example, averaged \$51.03 a week in June and \$52.16 in October; but this October figure was less than his net spendable earnings in August and in September. This decline in take-home pay may be attributed largely to the increase in personal income taxes levied early last year. What it indicates is that wage increases have not been the decisive factor behind recent price increases.

CONSUMERS' PRICE AND WEEKLY EARNINGS INDEXES,

April, 1950 = 100

1950	Consumers' Price Index	Gross Average Weekly Earnings	Net Spendable Average Weekly Earnings*
January.....	99.8	98.9	98.9
February.....	99.5	99.0	99.1
March.....	99.8	99.3	99.3
April.....	100.0	100.0	100.0
May.....	100.8	101.1	101.0
June.....	101.7	103.4	103.2
July.....	103.1	104.0	103.8
August.....	103.4	105.9	105.6
September.....	103.9	106.6	106.2
October.....	104.5	108.9	105.4
November.....	105.0	109.0	.....

Source: U. S. Bureau of Labor Statistics.

* Worker with no dependents.

Another factor adding to the pressure for some form of wage stabilization has been the relatively small amount of civilian unemployment, compared with the unemployment existing prior to World War II. The apparent lack of a manpower "cushion" has strengthened the unions' bargaining power in seeking wage increases and management's willingness to meet wage demands in order to maintain their labor forces. However, the most recent available manpower data do not as yet indicate that the nation is scraping the bottom of the manpower barrel.

In December, 1950, the civilian labor force numbered 62.5 million, of whom 2.2 million were listed as unemployed. The lowest amount of unemployment during World War II was 440,000, reached in October, 1944, when the civilian labor force was at a level of 55 million and the total labor force (including the armed services) was 66.7 million. Thus, there are still over 1.5 million unemployed to be absorbed by industry before the low point in unemployment of World War II is reached. In addition, there is the large reserve of woman-power that is still to be tapped for the labor force.

It has been estimated by the Secretary of Labor that the total labor force, including the armed services, can reach 70 million, a rise of approximately 5 million above present levels. Part of the existing reserves will go directly into the armed services, particularly if authorization to draft 18-year-olds is passed by Congress. With the planned expansion in the armed services the margin of unemployment will probably narrow. This tightening of the labor market will then pose a problem; and anticipation of that problem is more significant as a factor pressuring for higher wages than the actual manpower situation at present.

In view of the relatively small rise in the cost of living, the slight rise in net spendable earnings, and the not-quite-tight manpower situation, another factor should

be considered as supporting the argument against immediate wage stabilization. That factor is the peaceful collective bargaining that has been taking place during this emergency period. A principal objective of the government's defense program has been increased production, and there is no better way to obtain the support of such a program from labor and management than to permit both groups to continue to settle their differences through free collective bargaining. When the situation with respect to cost of living, earnings, and manpower changes to the point where the emergency is obvious to both labor and management, the time will then be ripe to establish a wage stabilization program.

Wage Stabilization Problems

Whatever the case for or against immediate wage stabilization, a Wage Stabilization Board is currently in operation. This board has already posed a list of problems which it considers require solution. For hearings starting January 11, industry and union representatives were asked to consider: (1) what policies should be adopted to meet possible wage inequities arising out of the timing of applying stabilization controls; (2) whether cost-of-living provisions, such as escalator clauses, should be permitted to continue without limitations; (3) whether stipulations for future wage increases through wage reopenings, improvement factors, and cost-of-living clauses may be put in force; (4) how to deal with controls on an industry- or area-wide basis that may give rise to alleged inequities or manpower allocation difficulties; (5) how to treat wage adjustments within a plant; (6) whether to allow increases for "substandard" rates of pay; and (7) whether to permit the adoption and continuation of various economic fringe benefits, such as pensions.

Trade unions have begun to declare themselves with respect to wage stabilization policies which they believe should be followed. The newly formed United Labor Policy Committee, composed of AFL, CIO, and Railroad Brotherhood leaders, recently requested that present wage stabilization procedures be revised to permit cost-of-living wage adjustments, wage flexibility, the elimination of substandard rates and wage inequities, sharing of workers in productivity increases, the recognition of existing collective bargaining agreements which assure stability, and the continuation of overtime payments provided under agreements or by the law. John L. Lewis, president of the United Mine Workers, has refused to co-operate with the United Labor Policy Committee, and has contended that there is no need for any wage controls at present. It should be noted here that the United Mine Workers' contract expires on March 31.

What policies will be forthcoming from the Wage Stabilization Board is difficult to predict. Both cost-of-living escalator clauses and annual improvement factor clauses can be justified in that they would not affect the general price level. Assuming an effective price control program on all items of the consumer's budget, there will be relatively little rise in the cost of living, and therefore little or no rise in wages via the escalator provision. Approval of the annual improvement factor can be justified on the ground that such an annual increment is based on increased productivity, and therefore should not result in increased prices. Since the Wage Stabilization Board is a tri-partite body, with public, industry, and labor representatives, all these factors will undoubtedly be considered. A compromise policy is most probable, with approval of either the cost-of-living escalator or the annual improvement factor likely.

LOCAL ILLINOIS DEVELOPMENTS

A continued expansion of the State's economy was reflected in the November gains recorded by most indexes of business activity. Total nonagricultural employment showed little change from the October peak. Total manufacturing employment also held steady, with increases in durable goods counterbalanced by seasonal declines in nondurable goods. Areas reporting relatively large gains in manufacturing employment in the two-month period, September 15-November 15, were Chicago, Peoria-Pekin, Joliet, Elgin, Decatur, and Aurora.

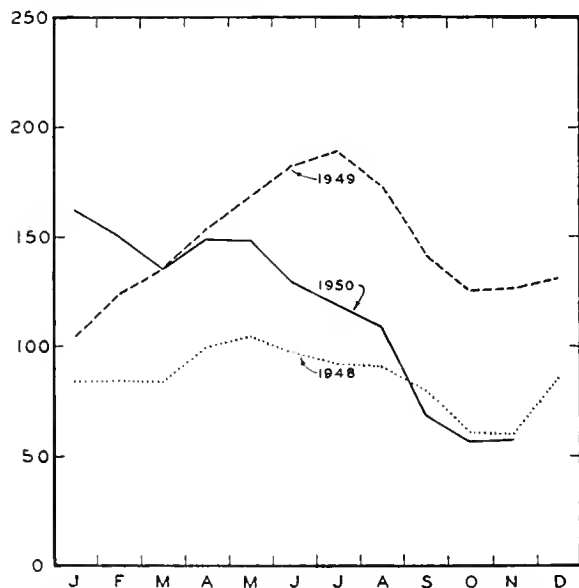
A general tightening of the labor market is reflected in the decreasing number of unemployed persons in most areas. The number of insured unemployed workers (average weekly number of unemployed persons in the State claiming unemployment insurance under both State and Federal programs) has steadily decreased since April, 1950 (see chart), and the usual midsummer seasonal peak was not even evident last year. Since April, the number of insured unemployed workers each month has been less than in the same month of the preceding year, and there were fewer unemployed last fall than in the peak prosperity fall months of 1948.

Power Production

Electric power production in the State set a new record in November, output for the month exceeding the October all-time high by 4 percent. Expansion of electric power production facilities in the State is continuing. A new 65,000-kwh. turbine has been completed at the Grand Tower power station of Central Illinois Public Service Company. The new turbine doubles the capacity of the station and will be used in supplying electricity to 90 southern Illinois communities. A \$285,000 loan to South-eastern Illinois Electric Co-operative for expansion of rural power facilities has been approved by the Rural Electrification Administration.

INSURED UNEMPLOYED IN ILLINOIS

THOUSANDS OF WORKERS



Source: Division of Unemployment Compensation, Illinois Department of Labor.

Construction

Value of construction contracts in November declined seasonally to \$68.4 million, dropping 9 percent below the October figure. A 25 percent decline in nonresidential building contracts was primarily responsible for the overall decrease. Residential contracts declined only 4 percent and public works and utility contracts increased. As compared with November, 1949, contract awards this November were up 60 percent. For the first eleven months of 1950 contract awards were 48 percent greater than in the same period of 1949, primarily because of a jump of 80 percent in residential building contracts.

Building permits issued in 20 Illinois cities in November aggregated \$23.9 million, 46 percent under the October figure. The main reason for the decline was a 55 percent drop in Chicago permits.

The Illinois Central Railroad has announced that it will spend more than \$10.5 million for new freight and passenger equipment. Approximately \$9 million of this sum will be spent for 1,000 new freight cars and 40 switching locomotives. The remaining \$1.5 million will be expended for new twin-unit dining cars and passenger locomotives. The freight cars will be built in the company's Centralia shops and will be 50-ton, 16-door, drop-bottom gondolas, the first of this type to be constructed at the Centralia shops.

Gamble-Skogmo, Inc., a Minneapolis merchandising firm, is constructing a large warehouse on an 18-acre tract north of Monmouth. The warehouse will serve several hundred stores operated by the company in Illinois, Wisconsin, Missouri, and Iowa. Acme Steel Company is planning to build an addition to its Riverdale plant, thus expanding its facilities for producing galvanized strip-iron, which is used in packaging for shipping overseas.

A grant of \$88,200 has been approved by the Housing and Home Finance Agency for a slum clearance project for Lincoln. The funds are to be made available after the project is completed and are to be used to absorb two-thirds of the deficit between the cost of the clearance project and the sum received from the sale of the cleared site.

The Illinois Commerce Commission has authorized construction of a 13-mile gas pipe line to connect the Illinois Power Company's plant at Centralia with the natural gas line which the Texas Illinois Natural Gas Pipeline Company is building from Texas to Chicago. The Commission also authorized the company to furnish gas to Sandoval, Junction City, and Shattuc. The Texas Pipe Line Company has contracted for the construction of a 56-mile, 10¾-inch pipe line to run between Lawrenceville, Illinois, and Mount Vernon, Indiana.

Prices

The Chicago consumers' price index increased 0.1 percent during the month ending November 15 to 180.6 percent of its 1935-39 average. Moderate decreases in food and housefurnishings offset gains in prices of clothing and miscellaneous goods and services.

The index of prices received by Illinois farmers advanced approximately 3 percent from October 15 to November 15, to 245 percent of its 1935-39 average on November 15. As the index of prices paid by farmers rose only 0.8 percent during the same period, the Illinois parity ratio advanced from 102 in October to 104 in November. In November, 1949, it was 93.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

November, 1950

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ¹ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS							
ILLINOIS		\$23,894 ^a	\$130,744 ^a	\$496,702 ^a		\$10,090 ^a	\$13,072 ^a
Percentage Change from	{Oct., 1950.	-46.0	-0.8	+0.0	+18.3	-2.5	+13.0
	{Nov., 1949.	+28.4	+16.4	n.a.	+8.5	+21.7	+6.0
NORTHERN ILLINOIS							
Chicago							
Chicago		\$16,729	n.a.	\$366,462		\$9,146	\$11,639
Percentage Change from	{Oct., 1950.	-54.7		+1.2	+19.0	-2.3	+15.0
	{Nov., 1949.	+25.5		n.a.	+8.1	+21.7	+5.8
Aurora							
Aurora		\$ 566	n.a.	\$6,809		\$ 40	\$ 92
Percentage Change from	{Oct., 1950.	+135.8		+2.5	+17.0	-0.2	+12.0
	{Nov., 1949.	+180.2		n.a.	+17.1	+20.7	+27.0
Elgin							
Elgin		\$ 415	n.a.	\$5,118		\$ 27	\$ 102
Percentage Change from	{Oct., 1950.	+24.6		+2.2	n.a.	+5.9	+37.3
	{Nov., 1949.	+119.6		n.a.		+18.5	+17.1
Joliet							
Joliet		\$ 180	n.a.	\$9,088		\$ 45	\$ 76
Percentage Change from	{Oct., 1950.	-74.8		+3.8	+11.1	-1.3	+41.5
	{Nov., 1949.	-68.9		n.a.	+16.4	+20.9	+35.1
Kankakee							
Kankakee		\$ 388	n.a.	\$4,264		n.a.	\$ 32
Percentage Change from	{Oct., 1950.	+55.8		-5.2	+3.8		-3.5
	{Nov., 1949.	+89.3		n.a.	+10.5		+7.2
Rock Island-Moline							
Rock Island-Moline		\$1,287	15,919	\$8,846		\$ 30 ^b	\$ 118
Percentage Change from	{Oct., 1950.	+58.7	+8.3	-3.0	n.a.	-3.0	-17.0
	{Nov., 1949.	+112.0	+7.0	n.a.		+5.7	-8.5
Rockford							
Rockford		\$1,259	23,808	\$14,450		\$ 113	\$ 156
Percentage Change from	{Oct., 1950.	+74.4	-4.1	+0.3	+14.1	+0.4	+5.8
	{Nov., 1949.	+207.1	+20.4	n.a.	+10.0	+28.5	+8.0
CENTRAL ILLINOIS							
Bloomington							
Bloomington		\$ 183	n.a.	\$5,075		\$ 48	\$ 79
Percentage Change from	{Oct., 1950.	-46.2		-3.0	n.a.	-4.5	-0.0
	{Nov., 1949.	+185.9		n.a.		+20.4	+7.5
Champaign-Urbana							
Champaign-Urbana		\$ 222	n.a.	\$6,987		\$ 47	\$ 85
Percentage Change from	{Oct., 1950.	+5.2		-0.7	n.a.	-11.7	-3.0
	{Nov., 1949.	-10.9		n.a.		+15.7	-2.1
Danville							
Danville		\$ 263	n.a.	\$5,448		\$ 40	\$ 47
Percentage Change from	{Oct., 1950.	+136.9		-3.4	n.a.	+12.8	-0.5
	{Nov., 1949.	-35.7		n.a.		+20.4	-5.1
Decatur							
Decatur		\$ 244	n.a.	\$8,802		\$ 87	\$ 80
Percentage Change from	{Oct., 1950.	-63.5		-4.4	+10.5	-15.0	-1.5
	{Nov., 1949.	-34.2		n.a.	+7.4	+21.3	+2.0
Galesburg							
Galesburg		\$ 49	n.a.	\$3,820		n.a.	\$ 27
Percentage Change from	{Oct., 1950.	-92.1		-2.0	n.a.		-5.0
	{Nov., 1949.	-93.3		n.a.			-7.5
Peoria							
Peoria		\$ 785	43,844 ^c	\$16,992		\$ 195	\$ 198
Percentage Change from	{Oct., 1950.	+21.7	-1.6	+2.2	+16.4	-4.0	+13.4
	{Nov., 1949.	+83.8	+21.3	n.a.	+5.9	+15.4	+20.7
Quincy							
Quincy		\$ 482	6,625	\$4,775		\$ 32	\$ 60
Percentage Change from	{Oct., 1950.	+19.0	+2.5	+3.7	+10.0	-0.6	-21.1
	{Nov., 1949.	+128.4	+13.9	n.a.	+7.0	+0.4	+1.2
Springfield							
Springfield		\$ 527	19,931 ^c	\$12,519		\$ 83	\$ 173
Percentage Change from	{Oct., 1950.	-7.7	-1.3	-3.7	+14.0	-2.4	-4.4
	{Nov., 1949.	+92.3	+5.0	n.a.	+20.0	+25.5	+1.3
SOUTHERN ILLINOIS							
East St. Louis							
East St. Louis		\$ 87	10,138	\$8,724		\$ 129	\$ 50
Percentage Change from	{Oct., 1950.	-67.4	+2.2	+5.0	n.a.	-6.0	+0.8
	{Nov., 1949.	-53.7	+20.9	n.a.		+45.7	+7.0
Alton							
Alton		\$ 83	10,478	\$4,405		\$ 27	\$ 20
Percentage Change from	{Oct., 1950.	-70.3	-5.9	+4.1	n.a.	-2.3	+27.0
	{Nov., 1949.	-2.4	+25.4	n.a.		+10.0	-2.0
Belleville							
Belleville		\$ 145	n.a.	\$4,118		n.a.	\$ 32
Percentage Change from	{Oct., 1950.	+4.3		+13.2	n.a.		-4.8
	{Nov., 1949.	+74.7		n.a.			+5.4

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for October, 1950, the most recent available. Comparisons relate to September, 1950. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

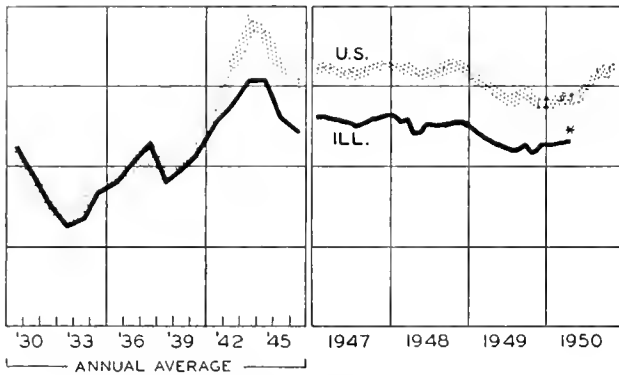
^c Includes immediately surrounding territory.

n.a. Not available.

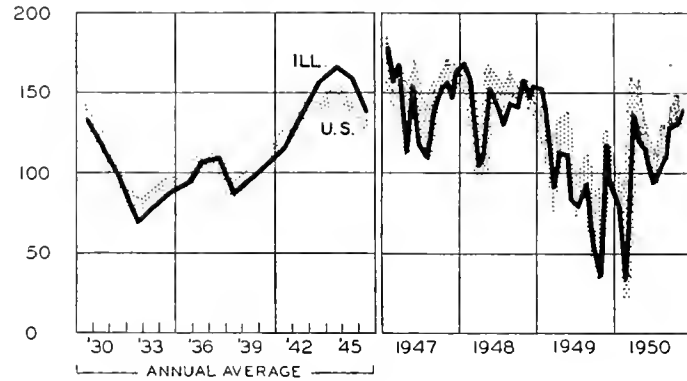
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

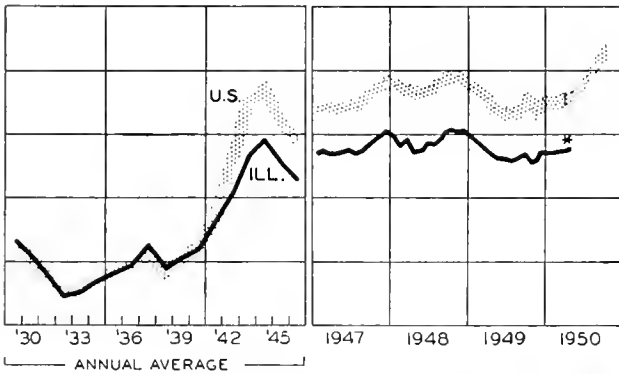
EMPLOYMENT-MANUFACTURING



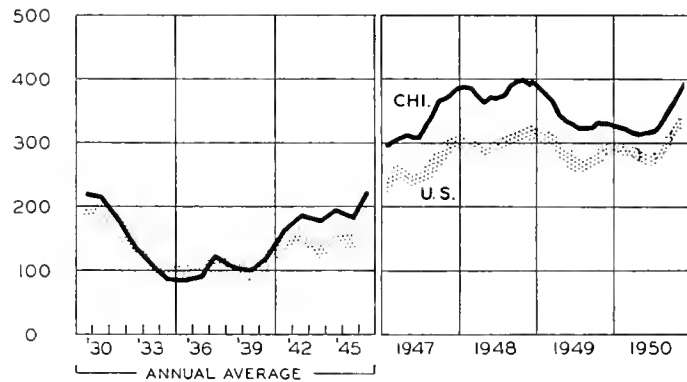
COAL PRODUCTION



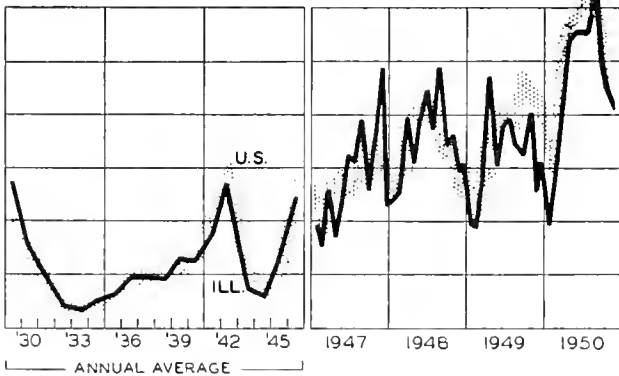
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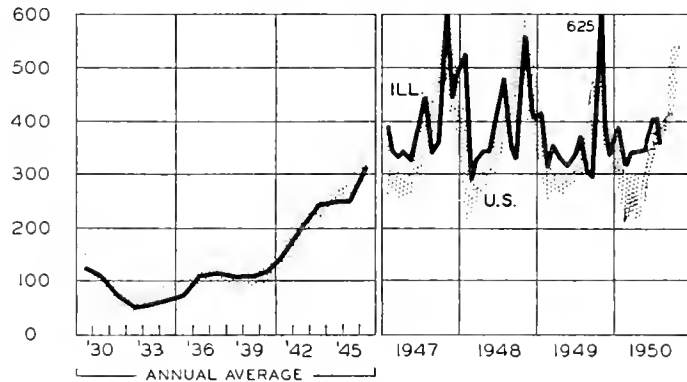
BUSINESS LOANS



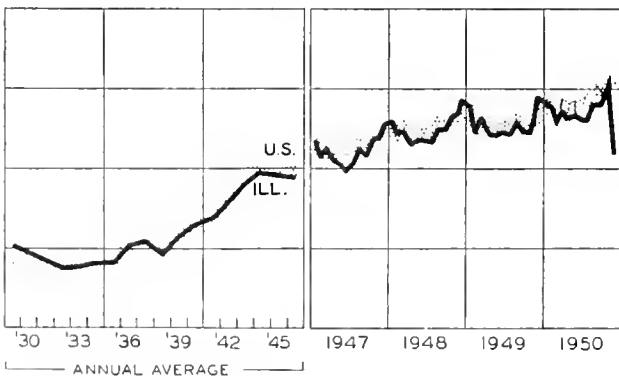
CONSTRUCTION CONTRACTS AWARDED



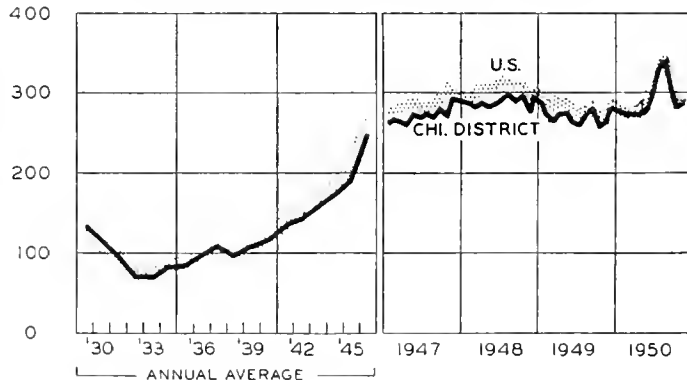
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



* Illinois figures being revised.

ILLINOIS BUSINESS REVIEW

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HIGHLIGHTS OF BUSINESS IN JANUARY

UNIVERSITY OF ILLINOIS

The nation's defense effort appeared to be shifting into high gear in January. Increased production of military supplies and of heavy goods for industry caused the Federal Reserve index of industrial production to approach 220 percent of its 1935-39 base period average; this is a new postwar high and 20 percent above last January's level. Despite the shift to military production, the output of most consumer durable goods was close to the record levels of the end of 1950. Passenger car assemblies have so far been maintained at about the 1950 monthly average of 550,000 units, a rate of output at least 30 percent above that of any previous year.

Indicative of the defense effort is the record government budget of \$71.6 billion proposed by President Truman for the fiscal year beginning July 1 (Special article, p. 8). Most of the money, \$41 billion, is needed for the armed forces.

Price Ceilings Imposed

In an attempt to stem the mounting tide of prices, the Economic Stabilization Agency announced on January 26 a general freeze of prices and wages. Prices are fixed at the highest level during a base period extending from December 19 through January 25. Almost all commodities are covered by the order except for most fruits, vegetables, and field crops, which are permitted to rise further until they reach parity price ceilings.

Meanwhile, prices continued to rise. The Bureau of Labor Statistics index of wholesale prices advanced 2.1 percent during the month. Farm products and textiles registered the largest increases, up 4.1 percent and 4.9 percent, respectively, during the month. Consumers felt the impact of higher prices, as the index of retail food costs advanced 1.2 percent in the half-month ending January 2, to an all-time high 119 percent above the 1935-39 base period. Prices paid by farmers are up also, but so far prices received by farmers have risen even faster. This is reflected in the rise of the parity ratio in January to 110, a two-point gain over December.

Employment Down

The post-holiday slump, though very mild this year, resulted in a decline of over one million workers in non-farm occupations in January. The effect on unemployment was very slight, however, as most of these people

were in temporary employment and left the labor force when the holiday rush was ended.

Although the civilian labor force in January, at 61.5 million, was about the same over-all size as that of January, 1950, significant changes have occurred in its distribution. Unemployment has declined about 2 million from last January's number of 4.5 million jobless. Correspondingly, total employment is up by the same amount. The entire increase is in nonfarm employment, which is now 53.0 million as compared with 50.7 million last year.

Construction Maintains Record Pace

The value of new construction put in place in January amounted to nearly \$2.1 billion, an all-time high for the month and 21 percent above January, 1950. The effects of the accelerated programs for industrial plant expansion are beginning to be felt, as private industrial construction jumped 83 percent above last January.

Private nonresidential building as a whole was up 55 percent, but despite the growing importance of this type of construction, home building continues to dominate the scene. The nearly \$700 million of new homes erected accounted for more than half of total private outlays for new construction in January and established a new record for the month.

Final figures for 1950 show that 1,400,000 homes were built during the year; the previous high was in 1949 when just over a million homes were put up. May, 1950, witnessed the largest number of homes ever to be constructed in one month so far, 148,000. However, with the new housing credit regulations, construction activity in the housing field is expected to taper off considerably in 1951.

Department Store Sales Surge Upward

The usual post-holiday letdown in department store sales was greatly moderated this January as consumer buying continued at a record rate. For the month as a whole, department store sales were over 30 percent above last January, with Cleveland, San Francisco, Minneapolis, Kansas City, and Dallas registering gains as high as 40 percent. The war scare in the early part of the month and the fear of higher prices undoubtedly contributed to the buying splurge. At the same time, the fact that prices were somewhat higher itself accounted for part of the increase in the dollar volume of sales.

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Taxation Unlimited

Stabilization policy is like that of the worried parents with the sick child. Not knowing just what's wrong, or how serious it may be, they try everything — shots, drugs, tonics, radiation, and vitamins.

Similarly, a host of stabilization measures are put into effect with scant consideration of whether they are appropriate to the situation. Among them are priorities and other restrictions on use of scarce materials, direct limitations on various types of construction, various forms of credit control, tax increases, and ceilings on prices and wages. Now, still further tax increases are proposed, partly just to help make effective the controls already in use.

"Pay as You Go"

The newest nostrum is that we should tax in accordance with the "pay as you go" principle. This means, in brief, that all government expenditures should be paid for out of current receipts, so that no deficits will be incurred. On this basis, President Truman has called for \$16.5 billion in new taxes. (See page 8.)

Underlying this policy is the view that deficits are invariably identified with "inflation." The fallacies of this view have been pointed out in previous issues. In 1949, when the economy was beset with deflation, not inflation, the surplus of 1948 turned into a deficit. In 1950, when price increases more than wiped out the losses of the year before, the deficit disappeared. Obviously, changes in the private sector of the economy are important in determining whether or not prices will move up or down, and whether or not there will be a deficit. If private spending is restricted — to prevent, for example, excess investment by business in facilities and inventories — government programs can be correspondingly expanded without producing any tendency toward inflation.

What the "pay as you go" principle seems to add to ordinary budget-balancing is the idea that since the war effort has to come out of current production in any case, we may as well pay for it now. In this, there is an implication that it makes little difference whether we pay now and give up all claims against future production or accumulate such claims in the form of assets, like government bonds, that may be converted for future use.

In the period when consumption has to be restricted in the interest of the war program, savings tend to rise because the goods desired are not available. Additional

income taxes then come largely out of savings, which, if not taxed away, would be available to finance expenditures in the postwar period. The income earner who is now quite willing to sacrifice for the war effort may still wish to save for the home or automobile of the future. In this, he would be wrong only if the emergency proves permanent, only if capacity will always be so strained as to enforce low consumption. The tremendous productivity of our economy offers him great assurance to the contrary.

The other main argument for "pay as you go" is that taxes distribute the burden equitably, whereas without them it is distributed unpredictably and unfairly through "inflation." Whether this would be the result, however, is precisely the question at issue. No doubt the burden will be shifted to some extent, but determining just how is not easy, and certainly cannot be done without considering the specific taxes to be enacted.

The inequity of rising prices is generally considered to be concentrated on consumers with fixed incomes; but it is by no means self-evident that a "pay as you go" policy is in their best interests. Under this policy they may well suffer a further reduction in the money incomes at their disposal without gaining any real advantage price-wise. For President Truman's recent proposal would increase their tax rates, too, by an additional four percentage points.

Is there any assurance that by paying this additional four percent they can avoid an equivalent increase in prices? Here the answer seems definitely in the negative. This new tax would produce an additional \$4 billion in the aggregate, or little more than one percent of the gross national product; and it probably wouldn't reduce prices even that much, because much of it would come out of savings rather than market demand.

Similarly, the proposed additional \$3 billion tax on corporate income can't be expected to restrain price advances. It won't necessarily restrict corporate spending, as corporations can draw upon other sources of funds, and prices will tend upward to the extent that producers find ways of passing the higher taxes on.

All things considered, "pay as you go" seems to offer little hope for the consumer who is squeezed by rising costs of living.

Setting Tax Objectives

Nor does the situation suggest that there is now less than the usual danger in overburdensome taxation. At some point before taxes become truly oppressive, they tend to result in evasion or discouragement. Some find incentives in hidden income received outside the usual channels of production and distribution; others develop a "don't care" attitude that restricts effort and efficiency.

This is not to say that taxes are already at a maximum. We have a tradition of observance of the tax laws; and further moderate increases in both corporate and individual income taxes seem clearly possible. But who can say just when the pressure will become high enough to break down this tradition?

Is there any reason to think that if taxes are raised so high as to actually restrict consumption, this form of "control" will receive any better popular support than restrictions imposed by high prices or direct controls?

In these circumstances, we should regard a balanced budget as a luxury rather than a necessity. And we should ask ourselves the question, "Can we afford it?"

In answering this question, we should give thought

(Continued on page 6)

THE TRUCKING INDUSTRY

The city of Chicago, widely known as the railroad center of the nation, is also the hub of another of America's great transportation enterprises—the trucking industry. Trucking in Illinois has naturally centered around this huge industrial area, which has almost three-fourths of the 201 Class I carriers (grossing \$100,000 or more annually) in the State. Although Illinois ranked only fourth in number of Class I carriers, there were 144 located in Chicago alone, more than in any other city in the nation and 60 more than operate out of New York, the second-place city.

Illinois as a whole was fifth in motor truck registrations in 1949, with 318,000 trucks of all types. The number of trucks, other than those of Class I carriers, that operate in or through Chicago is not available, but the total is probably second only to that for New York.

A Transportation Giant

The number of trucks in operation has almost doubled since the beginning of World War II. There are almost 8 million such vehicles in the United States today, over half of all the trucks in the world. Truck transportation in the nation gives direct employment to over 5 million Americans, more than are employed in all other forms of transportation combined.

The for-hire trucking industry in the United States is rolling up more than 90 billion ton-miles of intercity service annually. This represents an 80 percent increase in freight hauling since 1940; during this same period the industry's operating revenues increased almost 4 times.

Nearly two-thirds of America's freight tonnage now moves at one time or another by private or for-hire trucks. The emergence of this relatively new mode of transportation has cut into the railroad's comparative share of total freight hauling, but that total is now so large that rail transportation in the past few years has also been at a high point in its 120-year history.

There is, of course, a large area of competition between the railroads and trucking, although many trucking operations could never have been railroad business. The railroads maintain that recent trucking gains have been the result of the disparity between truck and rail rates, but truck owners stress their more flexible service. Both factors have undoubtedly been important.

In 1949, when rail rates were going up, revenues of the for-hire portion of the trucking industry were at an all-time high of \$3.1 billion. They totaled, for the first time, almost half as much as the freight revenues of the railroads, whose shipping tonnages declined while truck tonnages hit a new peak.

Primarily Small Business

Over four-fifths of the 7.7 million vehicles that provide the nation with truck transportation are privately owned. More than half of them belong to persons having only one truck. Although there are many trucking fleets numbered by the hundreds, or even thousands, only

15 percent of the nation's trucks are operated in fleets containing more than 8 vehicles.

Of the privately owned trucks in the United States, 4.4 million are owned by manufacturers, distributors, and business firms; and 2.2 million are run by farmers. Federal, state, and local governments own 300,000 trucks used by the armed forces, the postal service, fire departments, garbage collectors, and similar agencies.

The remaining 1 million trucks are operated by the nation's trucking industry on a for-hire basis, either as common carriers or on contract to one or more customers. The income of the nation's 22,000 interstate carriers, including 2,700 in the Class I category, represents a major proportion of the industry's revenues.

Contract hauling and common carriers nevertheless contribute a smaller percentage of total truck usage by the industry than that of local cartage operators which give complete door-to-door service or join with other forms of transportation by taking goods to railways or airports or delivering them to their final destinations.

In 1949 leased equipment represented 35 percent of the total number of vehicles in intercity operation. Truck leasing, with 60,000 vehicles in operation, is one of the most rapidly developing phases of the industry. The leasing companies completely relieve their customers of the investment responsibilities of trucking operations, and the majority also handle all details of operation including insurance, garage facilities, and maintenance.

Growth Through Specialization

An important factor in the growth of truck transportation has been its ability to specialize. One of the newest of the hundreds of different types of trucks in operation today is the refrigerated van. Not many years ago, highly perishable foods were not available away from their point of production except in large rail centers which could take refrigerated rail carloads. Today even the 25,000 communities in the nation with no other form of land transportation than the highways are supplied with fresh fruits and vegetables by refrigerated trucks, which can divide their loads among a number of towns.

Other special types of trucks that supply both metropolitan areas and formerly isolated outposts include 100,000 tank-type trucks that transport milk and petroleum products, special vans that handle about 90 percent of household goods movements, vehicles that carry over 60 percent of all new cars from assembly lines to dealers, and livestock haulers that handle some 70 percent of the farm animals and over 95 percent of the live poultry that moves from farm to market each year.

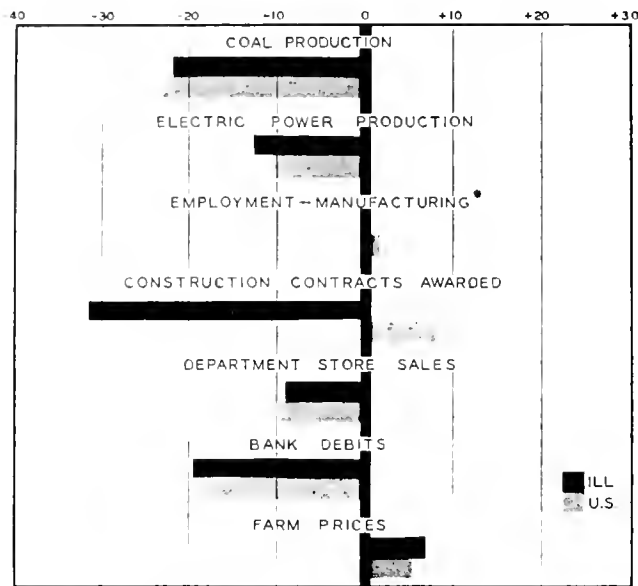
The variety of trucks for every purpose has helped to make possible the recent population shifts from the cities to suburban and rural areas. Business and industry have also been decentralizing for a number of years, and both these trends contribute toward an increasing dependence on the very trucking facilities that were originally instrumental in their growth.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes January, 1951, to February, 1951



* Figure for Illinois not available.

ILLINOIS BUSINESS INDEXES

Item	February 1951 (1935-39 = 100)	Percentage Change from	
		Jan. 1951	Feb. 1950
Electric power ¹	303.8	-12.4	+20.1
Coal production ²	117.6	-21.4	+285.5
Employment — manufacturing ³ ..	n.a.	....	....
Payrolls—manufacturing ³	n.a.	....	....
Dept. store sales in Chicago ⁴	262.3 ^a	- 8.3	+20.2
Consumer prices in Chicago ⁵	188.5 ^b	+ 1.7	+ 9.3
Construction contracts awarded ⁶	254.1	-31.1	-23.6
Bank debits ⁷	302.1	-19.6	+16.6
Farm prices ⁸	280.8	+ 6.1	+32.1
Life insurance sales (ordinary) ⁹ ..	183.3	- 2.4	+ 4.8
Petroleum production ¹⁰	197.3	-12.4	- 7.9

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Repts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.
^a Seasonally adjusted. ^b New series. Old series index for January was 189.7. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	February 1951	Percentage Change from	
		Jan. 1951	Feb. 1950
	Annual rate in billion \$		
Personal income ¹	241.0 ^a	0.0	+11.9
Manufacturing ¹			
Sales	277.2 ^a	-1.3	+36.7
Inventories	35.5 ^{a, b}	+1.4	+22.4
New construction activity ¹			
Private residential	10.4	- 4.1	+20.5
Private nonresidential	8.2	+ 1.6	+25.0
Total public	5.2	-12.5	+22.2
Foreign trade ¹			
Merchandise exports	12.9	+10.4	+40.4
Merchandise imports	10.9	-11.3	+50.9
Excess of exports	2.0	....	....
Consumer credit outstanding ²			
Total credit	19.5 ^b	- 1.9	+20.9
Installment credit	13.1 ^b	- 1.4	+20.0
Business loans ²	18.7 ^b	+ 4.0	+35.4
Cash farm income ³	22.0	-25.8	+14.8
	Indexes (1935-39 =100)		
Industrial production ²			
Combined index	221 ^a	0.0	+22.8
Durable manufactures	272 ^a	+ 1.1	+31.4
Nondurable manufactures	199 ^a	- 1.0	+10.6
Minerals	158 ^a	- 3.7	+33.9
Manufacturing employment ⁴	167	+ 0.5	+14.5
Factory worker earnings ⁴			
Average hours worked	109	0.0	+ 3.3
Average hourly earnings	261	+ 0.6	+10.1
Average weekly earnings	286	+ 0.6	+13.7
Construction contracts awarded ⁵	483	+ 9.3	+46.2
Department store sales ²	326 ^a	- 9.9	+16.4
Consumers' price index ¹	184 ^c	+ 1.3	+ 9.5
Wholesale prices ⁴			
All commodities	228	+ 1.9	+20.2
Farm products	267	+ 4.3	+27.3
Foods	237	+ 3.0	+19.8
Other	212	+ 0.9	+17.8
Farm prices ³			
Received by farmers	293	+ 4.3	+32.1
Paid by farmers	221	+ 1.5	+11.3
Parity ratio	113 ^d	+ 2.7	+17.7

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b As of end of month. ^c New series 183.8; old series 184.2 ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1951					1950
	March 24	March 17	March 10	March 3	Feb. 24	March 25
Production:						
Bituminous coal (daily avg.).....	1,687	1,653	1,670	1,858	1,682	2,085
Electric power by utilities.....	6,848	6,903	6,795	6,822	6,833	5,993
Motor vehicles (Wards).....	167.2	172.3	169.9	166.9	188.7	133.9
Petroleum (daily avg.).....	5,953	5,959	5,964	5,934	5,864	4,781
Steel.....	226.4	224.2	226.2	223.5	222.8	203.9
Freight carloadings.....	749	745	750	786	735	717
Department store sales.....	304	292	303	288	274	279
Commodity prices, wholesale:						
All commodities.....	183.9	183.4	183.5	183.0	183.3	151.7
Other than farm products and foods.....	172.1	171.7	171.8	171.2	170.9	145.4
28 commodities.....	378.3	379.1	382.9	388.3	390.4	246.1
Finance:						
Business loans.....	19,173	18,956	18,689	18,733	18,588	13,843
Failures, industrial and commercial.....	170	185	153	170	127	186

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Continues High

Industrial activity as measured by the Federal Reserve Board index is maintaining a record peacetime level. Even in February, when the rail switchmen's strike hampered shipments, output stayed at a peak 221 percent of the 1935-39 average. The Board estimated that production in March reached a new postwar high of 223, noting that consumer goods, especially cars and household appliances, are still being turned out at a rapid rate in spite of expanding defense production. Steel output exceeded rated capacity each week during March by nearly 1.5 percent, with more than 2 million tons of net ingots and castings produced weekly. Automotive operations were maintained at high though not record levels. Weekly turnout averaged 170,000 vehicles despite restrictions on steel, copper, aluminum, and tires. Generally materials are being eked out or replaced with substitutes to prolong high-level production.

Peak production of nondurables in the past few months, together with defense mobilization, has heightened the demand for paper and paperboard products. As shown in the accompanying chart, both total production and paper and paperboard output are substantially above previous levels. Unfilled orders for paper and paperboard are also much higher, having jumped from about a two-week backlog of orders to more than a three-week backlog after the Korean outbreak. In consequence of high demand, wholesale prices for paper and paper products rose sharply before leveling off in February.

Prices More Settled

Wholesale and farm prices were somewhat more stable during March than had been the case in preceding

months. The price index of 28 basic commodities, which had risen as much as 5 or 6 percent monthly in past months, declined in March, falling by 2.7 percent. Import and industrial prices were chiefly responsible, with decreases of 3.8 percent and 2.4 percent, respectively. Farm products, up very slightly, showed the only increase during March.

The comprehensive index of wholesale prices rose only fractionally, mainly in response to higher prices for farm products. Food prices, lately of much concern at the retail level, fell by 0.7 percent. A 2 percent decline in chemicals and allied products was the largest change for the four-week period ended March 27.

Farm prices received, which rose 4 percent in the month ended February 15, were also steadier in the latest monthly period ended March 15. Somewhat lower prices for food grains, dairy products, and hogs combined with substantially lower prices for truck crops to cause a decline of 2 index points in prices received to 311 (1910-14 = 100). Prices paid, however, rose about 1.5 percent to 280 percent of the base period average. As a result the parity ratio dropped two points, from 113 to 111.

Only the consumers' price index continued to change as much or more than in recent preceding months. According to the revised BLS index, consumers' prices rose by 1.3 percent during the month ended February 15 to a new record high of 183.8 (1935-39 = 100). This increase raised the index to a point 8 percent over the June 15, 1950, level. Food and apparel prices were nearly 2 percent higher than in January and home furnishings were up by more than 1 percent.

Employment Rises

Employment in March rose seasonally, with nearly 1.3 million more workers on the job than in February. Only about one-third of the rise occurred in farm work, non-farm employment gaining 800,000. The seasonal upturn in construction and defense production were the main causes of the nonfarm increase. The total advance over February was one of the largest ever recorded for this time of year. Many of the workers going into nonagricultural work were recruited from the out-of-work ranks so that unemployment dropped by 260,000. Part-time work declined sharply as the number of workers at full-time jobs rose by 1.8 million. Bureau of Census data, in thousands of workers, are as follows:

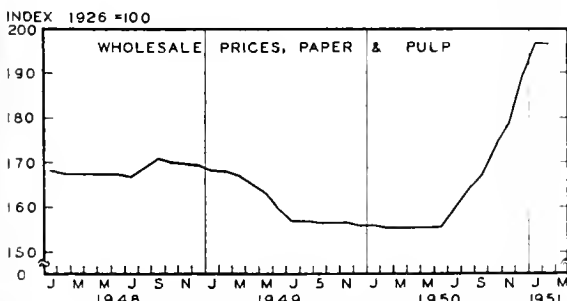
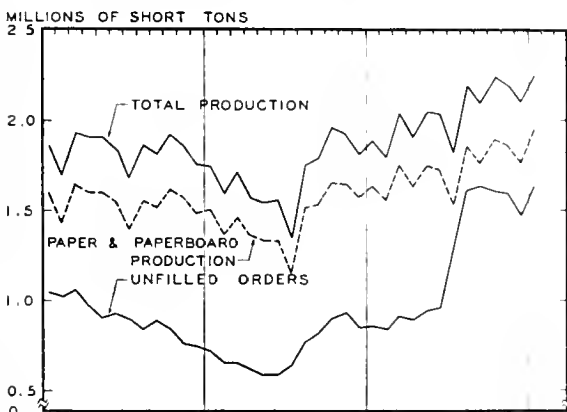
	March 1951	February 1951	March 1950
Civilian labor force.....	62,325	61,313	61,675
Employment.....	60,179	58,905	57,551
Agricultural.....	6,393	5,930	6,675
Nonagricultural.....	53,785	52,976	50,877
Unemployment.....	2,147	2,407	4,123

Construction Rises Seasonally

Building activity made its usual seasonal upturn in March, and advanced 10 percent over February to a total of \$2.1 billion. Practically all residential and business categories shared in the increase. Private nonfarm residential and industrial building showed good gains but the largest percentage advances occurred in public utility and farm construction. All classifications of public construction rose over February, the largest increase appearing in highway construction.

Building restrictions imposed since last June to conserve materials for defense projects have caused important shifts in the first quarter of this year as compared

PAPER AND PAPERBOARD TRENDS



Sources: American Paper & Pulp Ass'n; National Paperboard Ass'n; U. S. Depts. of Commerce and Labor.

from \$17.8 billion on December 27 to \$18.1 billion on January 31.

Rubber in Short Supply

Rubber, together with other strategic materials such as steel, copper, aluminum, and sulphur, continues to be a headache for defense planners. Natural rubber imports fluctuate widely in any case, having ranged between 60,000 and 80,000 long tons monthly since last March. High current demand by every industrialized nation, coupled with a limited supply, has contributed to the sharp rise in the price of natural rubber, illustrated in the chart; but the most important factor in that demand has been the American stockpiling program which has been accelerated since the outbreak in Korea. Since total consumption exclusive of stockpiling has risen substantially during the last year, synthetic rubber production has gradually been increased to help make up the deficit. Plans for turning over to private industry the plants built by the government, and now being operated by it at full speed, seem likely to be dropped. Even with capacity operation of the synthetic plants and fairly high-level imports, rubber needs are still not being fully met. As a result, the amount of synthetic rubber going into tires for civilian consumption has been cut by about one-sixth and the government has taken control of all natural rubber imports.

Wholesale Prices at New High

Wholesale prices in general again rose sharply during January. The BLS index of 28 sensitive commodities advanced 5.2 percent over the month to a high of 388.7 on January 31 (August, 1939 = 100). Import and industrial price increases of 8.1 percent and 6.1 percent, respectively, were the chief causes of the advance. In the six months from July 28, 1950, to January 29, 1951, this basic commodity index has risen nearly 28 percent, chiefly

as a result of large increases in import and industrial prices. In the imported group, rubber (see chart) and tin have been the largest contributors to the rises.

The comprehensive BLS index of about 900 commodities showed a lesser but still sizable increase of 2.1 percent during January from 176.8 to 180.5 (1926 = 100). Farm products, up 4.1 percent, were the most important factor.

A 5 percent increase in prices received by farmers to 300 (1910-14 = 100) from mid-December to mid-January was the largest since last July. Nearly all farm commodities contributed to the rise. Prices paid also rose, by 3 percent, mainly because of higher wage rates. As a result, the parity ratio rose from 108 to 110.

Consumers' prices have apparently begun to catch up with earlier rises in wholesale prices and for the first time since July rose by more than 1 percent in a single month. A 1.6 percent advance from November 15 to December 15 carried the consumers' price index to 178.4 (1935-39 = 100). According to the BLS, the increase was the largest since September, 1947. Food prices, up nearly 3 percent, were mainly responsible for the increase. The aggregate rise in the index between last June, when war broke out, and December amounted to 4.8 percent.

Taxation Unlimited

(Continued from page 2)

to our basic objectives. Are these objectives to collect high taxes and to do everything else that might help prevent any increase in prices? Or are they to build invincible defenses and to promote economic progress for the purpose of minimizing reductions in living standards?

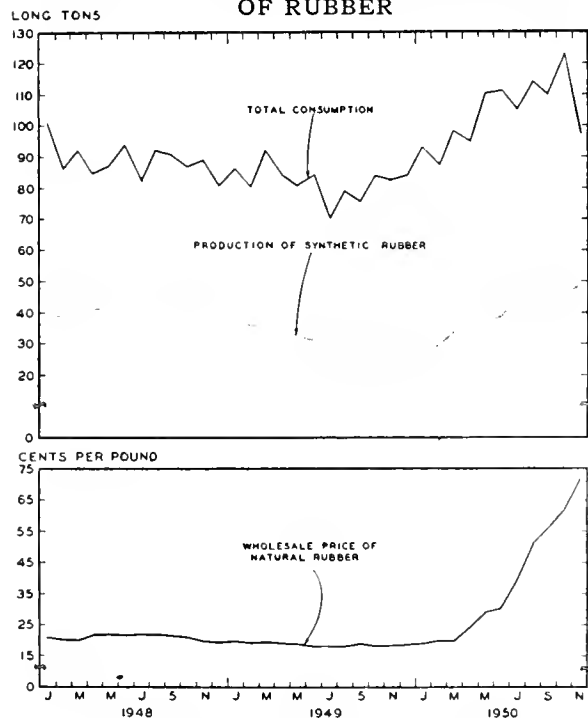
All that stabilization can legitimately aim at is preventing a rate of change in prices and incomes so fast as to be disruptive. How fast a rate of advance may be permitted depends largely upon the measures adopted to prevent it. Most of the alternatives, too, are disruptive; almost every control sets up some interferences and produces some loss of efficiency.

What can be done depends also upon the urgency of the situation; for the public will not long accept all-out wartime controls in a short-of-war situation. Imposition of such controls takes on an ironic character when it is considered that no extreme or permanent inflation is likely in such a situation. The "inflation" probable in the first year or two of military build-up—considering the offsets in civilian investment and durable goods expenditures which are necessary in order to get the war program accomplished—is moderate. And once the military program levels off—assuming for the moment that it could level off at some such rate as \$60 billion per year—the economy would, in a limited period, catch up in real production so that even that moderate inflationary pressure would be eliminated.

The first aim of tax policy, therefore, should be to determine a proper tax objective, and not to engage in a game of devising schemes for getting all the taxes possible. Since inflationary pressures are not unlimited, there is no need for unlimited taxes. As we view it, a more limited tax objective than "pay as you go" is entirely appropriate. If it were so restricted as to leave a deficit equivalent to what the public is willing to invest in government bonds, there would be little difference in prices, but a better chance of attaining goals that are really worth striving to achieve.

VLB

PRICE, PRODUCTION, AND CONSUMPTION OF RUBBER



Sources: U. S. Depts. of Commerce and Labor.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Economic Mobilization

The January, 1951, issue of *Dun's Review* contains four articles on the lessons learned about a wartime economy during World War II. "What the War Taught Us About Materials Controls" tells how much of each basic material of war was needed last time, the methods used to accomplish the huge production task, and how it can be done again. "What the War Taught Us About Price Controls" touches on various problems that America may encounter in our present price control program, based on World War II experience. "What the War Taught Us About Wage Controls" describes the lessons learned by the National War Labor Board during World War II which should guide us during future wage control operations. The final article, "What the War Taught Us About Military Procurement," explains how army and navy procurement was expedited by central sources of control, and proposes the unification of all Federal procurement activities.

Neon Sign Development

Counter-type neon signs with individual interchangeable letters are being produced by Neograme, Limited, London. They may be operated from any electrical outlet, with a power consumption of less than 10 watts for a 50-letter message. Individual letters and characters with small magnets attached can be fixed in any position on a ferro-magnetic plate and light automatically. Two standard sizes of letters and numbers are offered, 1½ and 2 inches high, in a full range of colors. This easy interchangeability of message and design is expected to find wide use in theaters and stores.

Buyer's Guide

A new type of buyer's guide is soon to be offered by the Manufacturers Directory Company (603 South Dearborn Street, Chicago 5). Its first section will include a listing of more than 13,000 industrial manufacturers which are valued at \$50,000 or more, arranged geographically by type of business. A second section will give Federal government information for commerce and industry, including government procurement office locations, names of Federal officials, data on how and where to obtain government contracts, and postal information. The final part consists of a 192-page classified buyer's guide, of special interest to purchasing agents.

Excess Profits Tax

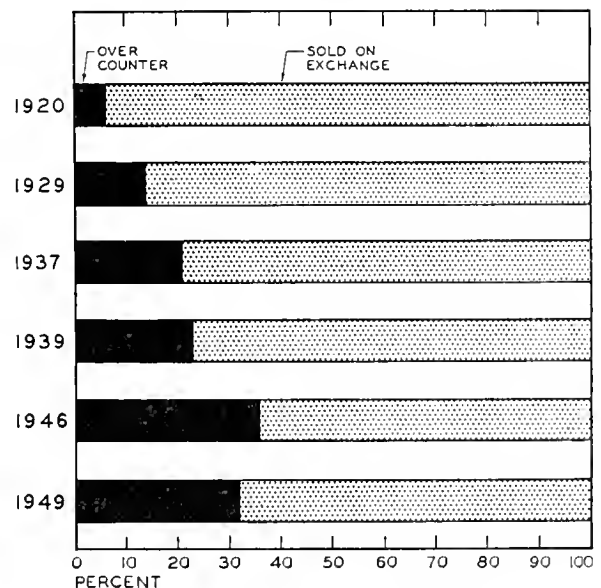
Prentice-Hall, Incorporated (70 Fifth Avenue, New York 11, N. Y.), has published a booklet explaining the *Excess Profits Tax Act of 1950* (\$1.00). Describing the relationship of the excess profits tax to the income tax, it tells how to take advantage of the general relief provisions of the act, which takes effect as of July 1, 1950. The tax is essentially an additional tax on part of the corporate income on which income tax is payable. It is figured on the basis of 30 percent of income subject to the excess profits tax—namely, income less credits allowed for such things as average earnings in the years 1946-49, invested capital, and historical invested capital.

These credits are the standard for measuring the amount of a corporation's annual profit that is not considered excessive, and unused portions of credit may be carried over for use in future years.

Over-the-Counter Security Sales

The University of Pennsylvania has published a booklet entitled *Activity on Over-the-Counter Markets*, by Irwin Friend. Describing the results of a study of the over-the-counter securities markets made at the university, the booklet focuses attention on outstanding corporate stocks. In total value of security transactions, over-the-counter markets are far more important than the exchanges, since virtually all trading in outstanding Federal, state, and municipal issues is over the counter and sales of new issues are restricted to these markets. The picture is quite different for outstanding corporate stock alone. Although the total sales of such stock have varied from \$157 billion in 1929 to only \$15 billion in 1939, during the past 30 years the proportion of over-the-counter sales has continued to rise. As shown by the chart, about one-third, or \$5 billion, of the total \$16

METHODS OF SALE OF CORPORATE STOCKS OUTSTANDING



Source: *Activity on Over-the-Counter Markets*, p. 9.

billion in sales of outstanding corporate stock in 1949 were in the over-the-counter markets, compared with only a 6 percent share of the total in 1920. Reasons for the decline in the importance of the exchange include the improvement in communication facilities among broker-dealers, and changes in the tax laws and securities legislation, both of which had a more restrictive effect on the exchanges than on over-the-counter activity.

Labor Arbitration Code

The publication of a code of ethics for the conduct of arbitration activities has been announced by the three

(Continued on page 9)

THE SHIFTING PATTERN OF RETAIL TRADE

FRED M. JONES, Associate Professor of Marketing

Current conditions are likely to bring about a shift in the shares of the consumer's dollar that various kinds of stores obtain. To understand what may happen, a review of developments during World War II and the postwar period will be helpful.

War and Postwar Retail Business

Stores that sell durable goods — such as automotive, furniture, building materials, and hardware stores — are in a better position in respect to the consumer's dollar in times of a prosperous free economy than they are during a "defense" or war economy, when restrictions are imposed. Chart 1 shows the relative shares of the consumer's dollar obtained by durable goods and other types of stores in the prewar peak year 1941, the war year 1944, and 1949, the last postwar year prior to the war in Korea.

In 1941, when there were no restrictions on credit, pricing, and production, durable goods stores obtained about 28 percent of the amount spent by consumers in retail stores. In 1944, when restriction was in full bloom, the durable-goods stores obtained only about 15 percent of the dollars spent in retail stores. When the restrictions were removed, the portion of the total which the durable-goods stores were able to obtain doubled; by 1949, the durable-goods stores were receiving about 31 percent of the consumer's retail dollar.

As might be expected, some kinds of stores or dealers fared worse than others because of the restrictions. Among these were the motor vehicle dealers. In 1944 the new car dealers were obtaining only about one-fourth as much of the consumer's dollar as they had obtained in 1941; not until 1949 were they again doing as well as in 1941. Total automotive sales were better maintained by high expenditures for repairs and parts.

Furniture and house furnishings stores do not appear to have improved their position. This inability to make any significant improvement seems to have been due to

several factors. In the first place, the consumer spent more of his income for automobiles and building materials. At the same time, the purchase of certain nondurable goods continued to be necessary, whereas the purchase of furniture and house furnishings could be postponed. In addition, other stores appear to have improved their position in reference to this merchandise, particularly stores that handle household appliances and radios.

In 1941 the nondurable-goods stores obtained about 72 percent of the consumer's dollar spent in retail stores. In 1944 this group of stores was obtaining almost 85 percent of the consumer's dollar. Thereafter a decline set in and by 1949 the nondurable-goods stores were obtaining little more than two-thirds of the consumer's dollar.

Improvement and decline in position varied by kind of store. A group of stores that recovered less than its prewar share was the general merchandise group, comprising department, variety, general, and dry goods stores. Conditions that promote the development of specialty stores, such as appliance stores, work to the disadvantage of the general store. This is a trend which has been going on for a long time.

By 1949 the stores composing the apparel group were also in a less advantageous position than they had been in 1941. These stores had increased the 7.5 percent share of the consumer's dollar they were obtaining in 1941 to 10 percent in 1944; but by 1949 they were receiving only 7.2 percent of the consumer's dollar. Within this group, women's apparel and accessory stores appear to have maintained their position, but they experienced a severe letdown from the 1944 level, when sales had expanded as a result of the large increase in women among the gainfully employed.

Changes Since Korea

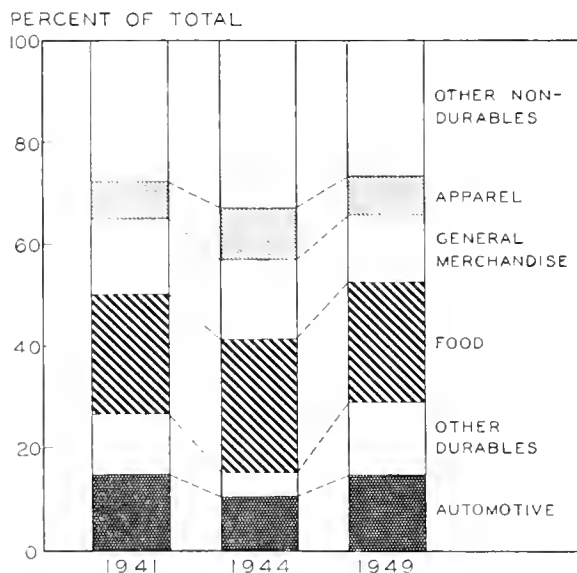
Retail sales picked up early in 1950 from the dip in the latter part of 1949 and were at a relatively high level when the Korean War broke out. The outbreak of hostilities precipitated a wave of scare buying. It was the signal for consumers to go into action; they descended on stores and bought large quantities of merchandise in anticipation of its soon being unavailable. July is usually one of the poorest months for the retailer, but in 1950 it was one of the best. Chart 2 shows the large bulge in sales that occurred at that time.

In July and August of 1950 consumers spent more for automobiles than they had ever spent before in a two-month period. For the year 1950 as a whole, automobile dealers and automotive parts and accessory stores obtained about one-fifth of the amount spent in retail stores. In no previous year has the automotive group of stores obtained so large a percentage of the retail sales dollar. Largely because of the business done by automotive firms, the sales of durable-goods stores amounted to almost 35 percent of the sales of all retail stores in 1950.

After August, sales dropped back somewhat. The United Nations forces broke out of the Pusan beachhead and began a comparatively unopposed northward advance. It appeared to consumers that, with the allied forces victorious, goods would continue to be plentiful.

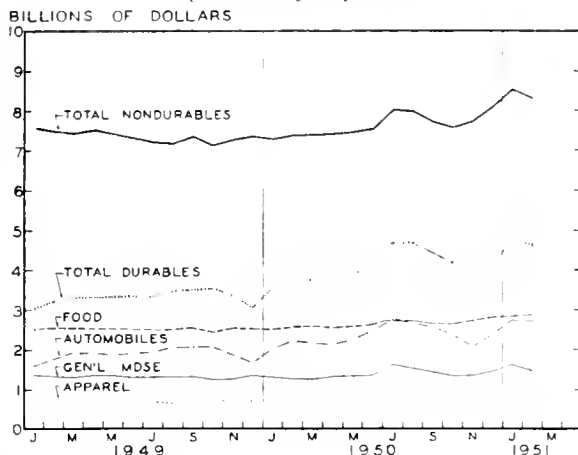
The entrance of the Chinese into the war and the military reverses that followed in the latter part of the year again raised doubts about the supply of merchandise

Chart 1. DISTRIBUTION OF RETAIL SALES DOLLAR



Source: U. S. Dept. of Commerce.

Chart 2. RECENT TRENDS IN RETAIL SALES
(Seasonally adjusted)



Source: U. S. Dept. of Commerce.

and led to a second wave of anticipatory buying. In this wave, sales again reached a new high level. Dollar volume in the first quarter of 1951 was at an all-time high for that period of the year, and on a seasonally adjusted basis even exceeded July and August of 1950.

Prospects for Sales and Profits

The dollar volume of retail sales is very likely to increase during the remainder of 1951, because prices are expected to remain at a high level and no drastic reduction in the over-all supply of merchandise is expected. There will, however, be a shift in the distribution of consumer buying back toward the wartime pattern.

With higher employment this year than last, apparel sales volume is expected to be greater than it was in 1950. An increasing number of women among the gainfully employed will cause the sale of women's apparel to increase even more rapidly than the total. This larger volume will bring in even more dollars because prices are now so much higher.

High prices and high employment will also cause the sales of stores in the food group to increase.

A basic factor which operates in favor of an increased volume of retail sales is the increase in population. During 1951 more than two million people will be added to the population. The continuing high birth rate suggests that there will be an increase in the sale of infants' apparel and other merchandise for the very young.

Uncontrolled Expansion

(Continued from page 2)

This constitutes the basic deficiency of proposals to use credit restriction for this purpose. The problem is not merely to tighten credit until it restricts something, no telling what, but to sort out and exclude the projects that don't have to be undertaken immediately. The banks and other financial institutions would still have to decide between the alternative outlets for their funds. But the best investments would not necessarily be the most important for emergency needs. The regular customers, the good accounts, the sound credit risks are not necessarily those in essential lines of business. The firms whose financial resources are already adequate, or whose earnings are high enough to finance desired expansion, are not necessarily those whose facilities should be expanded.

In contrast to these gains, the restrictions that have been applied to materials required by the armed forces may have a considerable effect on the pattern of retail trade. When the raw materials needed to produce consumer durable goods are used to produce military equipment and supplies, there will be less merchandise available for sale to the consumer. These restrictions have not as yet caused any significant reduction in the sale of durable goods. Not until the military program produces a greater impact than it has up to this time will it bring about any important change in the pattern of retail trade.

At present it does not seem likely that an important shift in the pattern will occur before the last half of 1951, but that a shift will eventually occur is almost certain, even apart from the military program. Consumers will not go on buying durable goods as they have since the outbreak of the Korean War. The very nature of durable goods causes their sales to be highly cyclical: once the consumer has purchased a durable good he is not in the market for some time again. In addition, continued substantial expansion of military plant and personnel will lead to an actual shortage of durable goods, and this will cause an increase in the percentage of the retail sales dollar which nondurable stores obtain.

On the other hand, the prospective reduction in sales of such durables as automobiles should not be exaggerated. This is not an all-out war program, and its takings will be limited. There should be enough materials left to produce new cars in substantial volume.

Profits will be affected not only by sales volume but also by price changes. At present a margin type of price control is in effect on some merchandise and it is likely to be extended to other kinds of goods. It is difficult to see how margin control can have any fundamental effect in the near future on the manner in which the dollar spent in retail stores is distributed among the various kinds. Rigid fixing of prices was not maintained long enough to effect an important shift in the pattern of retail trade.

All things considered, retailers' profits before taxes seem likely to be as good or better in 1951 than in recent years, when expenses were increasing faster than sales. This resulted in a general tendency for the percentage of profits before income taxes to decrease. In 1950, however, sales appear to have increased faster than expenses, and a similar pattern is expected for 1951. If this occurs, the percentage of profits will be higher in 1951 than it was in 1950. However, wide differences in results for various types of stores are likely.

Nor is this choice between claimants a type of decision that the individual banker or any privately organized group should be called upon to make. A correct decision can be made only by disinterested application of rules of policy designed to govern the production program as a whole.

Possibly, as materials control moves from the priorities phase into that of allocations, a closer scrutiny of expansion needs will be instituted. It is doubtful, however, that any generalized procedure can deal with the specifics of the facilities program. What is required is a specialized administrative operation, which might be of no small magnitude in itself, but minor in comparison with our present ill-conceived mechanisms of price and wage stabilization. In favor of such an operation is the fact that it represents an attack closer to the heart of the control problem.

VLB

LOCAL ILLINOIS DEVELOPMENTS

At least a temporary setback in the upward trend of Illinois business activity occurred in February, as a number of indicators registered January to February declines — even after allowance for the shorter month. February decreases in such series as electric power production, department store sales, and bank debits appear to be somewhat greater than those experienced in recent years. However, compared with last year, the State's economy was in a very strong position. The 3.2 million people employed in nonfarm occupations in February represented a 6.8 percent gain over February, 1950.

Steel Production

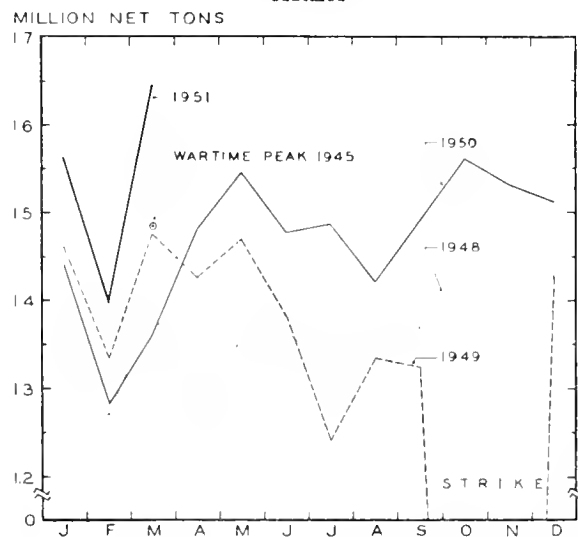
Steel production in the Chicago Industrial Area, comprising mainly mills in Cook County, Illinois, and Lake County, Indiana, climbed to a new all-time high of 1,647,000 net tons in March. This exceeded the previous highs in January, 1951, and in October, 1950, by 5.4 percent. (See chart) The extent to which mills in the area are utilizing their equipment to meet the current demand is indicated by the fact that the lowest production rate during March was 103.5 percent of rated capacity at the beginning of the month, which increased to a record figure of 108.0 percent for the week ending March 31.

Construction

Total value of Illinois construction contracts awarded in February fell off 31 percent from the January level and was 24 percent below February of last year. However, because of the high volume of contracts awarded in January, total contracts for the first two months of this year were 18 percent above those for the same period in 1950.

Early in March, the Defense Department announced multi-million-dollar construction projects for Chanute Air Force Base and Scott Air Force Base. A total of \$17 million was authorized for Chanute, \$7 million of which is to be spent immediately for constructing permanent barracks, classroom buildings, engine test facilities, and additional fuel storage. Scott Air Force Base was appropriated \$10 million.

STEEL PRODUCTION, CHICAGO INDUSTRIAL AREA



Source: Chicago Association of Commerce and Industry.

Two expansion projects, involving approximately \$6.8 million, are under way at Decatur. One is the \$3.8 million program of the Wabash Railroad Company to expand and modernize its yard facilities. The project involves building of additional tracks, a Diesel engine service terminal, engine and car repair facilities, and livestock pens. Also, the A. E. Staley Manufacturing Company, processor of corn and soybeans, is constructing a \$3-million grain storage elevator, to boost its storage facilities from 6 to 11 million bushels.

The Chicago & Eastern Illinois Railroad has announced that it will construct facilities for transferring 10,000 tons of coal daily from rail cars to barges at Joppa. The facilities will cost \$250,000 and will include a 700-foot belt conveyor and other equipment. The company also plans to make extensive harbor improvements.

The General Radiator Company has leased 35,000 sq. ft. of space at Ordill, government-owned 22,000-acre site of World War II Illinois Ordnance Works. It will build industrial engine coolers. The Hyster Company, manufacturer of lift trucks and tractor attachments, is expanding its operations in the State and constructing several new buildings at its Peoria plant.

The Sunbeam Corporation, a leading Chicago manufacturer of electric appliances, is constructing a \$1.7-million addition to its plant, which is expected to be completed this July.

Ford Motor Company has purchased a 14-acre tract of land in Melrose Park and will construct a service parts depot and a 2-story office building to house the district and regional sales offices of the Ford Division and the Lincoln-Mercury Division. Zenith Radio Corporation is constructing a new manufacturing and assembly plant 2½ miles west of its main plant in Chicago, which it hopes to have in operation by fall. Initial employment is estimated at about 1,000, and is expected to increase to 2,000 within a year.

Prices

Consumers' prices in Chicago advanced 1.7 percent between mid-January and mid-February. On February 15, the index stood at 188.5 (1935-39 = 100), 9.3 percent above the level of a year ago. All major groups of commodities and services contributed to the increase, with food prices, up 3.5 percent, reflecting the greatest gain.

The Peoria retail food price index on February 15 was 236.5 (1935-39 = 100), up 1.3 percent from January 15. The Springfield food price index advanced 1.9 percent during the same period to 238.2. Since last June, retail food prices have risen 12.5 percent in Springfield, 11.8 percent in Chicago, and 9.1 percent in Peoria.

On February 15 the index of prices received by Illinois farmers reached 313 percent of its 1910-14 average, the highest point since January, 1948, and 6.1 percent above the January 15 level. Since prices paid by the nation's farmers rose only 1.5 percent during the month, the Illinois parity ratio rose approximately 3 percent, and on February 15 stood at 113.

Preliminary figures of the 1950 Census show that there were 195,246 farms in the State last year. Without regard to the change in Census definitions, this was a decline of some 9,000 farms since 1945 or 18,000 since 1940. Nationally, it is estimated that the change in definition accounts for as much as 40 percent of the decline in the number of farms since 1945.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

February, 1951

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS							
ILLINOIS		\$16,322 ^a	888,908 ^a	\$494,178 ^a		\$9,418 ^a	\$10,086 ^a
Percentage Change from	{ Jan., 1951.	-26.2	-4.6	-20.4	-13.6	-19.6	-7.3
	{ Feb., 1950.	+36.5	+14.4	+19.4	+20.0	+16.6	+1.8
NORTHERN ILLINOIS							
Chicago							
Chicago		\$14,117	699,574	\$370,043		\$8,570	\$8,756
Percentage Change from	{ Jan., 1951.	-11.0	-4.4	-19.4	-14.3	-19.5	-7.1
	{ Feb., 1950.	+44.2	+9.2	+18.4	+19.7	+15.9	+1.5
Aurora							
Aurora		\$ 236	n.a.	\$6,353		\$ 35	\$ 70
Percentage Change from	{ Jan., 1951.	-41.3		-27.2	-13.4	-18.4	-11.0
	{ Feb., 1950.	+76.1		+15.1	+29.3	+19.9	+2.0
Elgin							
Elgin		\$ 78	n.a.	\$4,772		\$ 24	\$ 69
Percentage Change from	{ Jan., 1951.	+5.4		-28.0	-6.5	-16.7	-1.4
	{ Feb., 1950.	-51.6		+27.6	+22.8	+16.4	+1.4
Joliet							
Joliet		\$ 159	n.a.	\$8,379		\$ 41	\$ 79
Percentage Change from	{ Jan., 1951.	-38.4		-23.5	-7.8	-15.2	+25.3
	{ Feb., 1950.	-19.7		+24.0	+27.4	+19.0	+20.0
Kankakee							
Kankakee		\$ 133	n.a.	\$4,003		n.a.	\$ 27
Percentage Change from	{ Jan., 1951.	-49.4		-25.7	+3.7		-14.3
	{ Feb., 1950.	-33.5		+14.0	+28.1		+10.5
Rock Island-Moline							
Rock Island-Moline		\$ 280	18,330	\$8,879		\$ 29 ^b	\$ 134
Percentage Change from	{ Jan., 1951.	-54.8	-6.2	-21.3	n.a.	-11.2	-4.4
	{ Feb., 1950.	-21.8	+15.7	+24.6		+17.7	+14.3
Rockford							
Rockford		\$ 448	25,856	\$14,971		\$ 110	\$ 158
Percentage Change from	{ Jan., 1951.	-37.4	-1.6	-17.4	-8.0	-8.9	-18.5
	{ Feb., 1950.	+227.0	+19.0	+32.8	+23.0	+32.0	+6.6
CENTRAL ILLINOIS							
Bloomington							
Bloomington		n.a.	5,103	\$4,774		\$ 40	\$ 70
Percentage Change from	{ Jan., 1951.		-4.1	-22.1	n.a.	-23.8	-23.8
	{ Feb., 1950.		+13.7	+18.4		+13.6	-9.1
Champaign-Urbana							
Champaign-Urbana		\$ 119	7,482	\$6,436		\$ 42	\$ 61
Percentage Change from	{ Jan., 1951.	-31.6	-6.7	-22.3	n.a.	-28.8	-16.8
	{ Feb., 1950.	-12.5	+2.4	+15.8		+18.7	-27.7
Danville							
Danville		\$ 165	7,384	\$5,225		\$ 34	\$ 41
Percentage Change from	{ Jan., 1951.	+205.6	-6.9	-24.9	-14.8	-19.8	-13.0
	{ Feb., 1950.	+175.0	+11.0	+20.1	+12.0	+18.6	-7.0
Decatur							
Decatur		\$ 98	17,914	\$8,504		\$ 70	\$ 83
Percentage Change from	{ Jan., 1951.	n.a.	-9.5	-23.9	-18.8	-28.3	+6.6
	{ Feb., 1950.	+24.1	+34.4	+26.3	+5.9	+30.2	+8.2
Galesburg							
Galesburg		\$ 67	5,789	\$3,720		n.a.	\$ 27
Percentage Change from	{ Jan., 1951.	+28.8	+0.8	-24.4	n.a.		-21.5
	{ Feb., 1950.	+204.5	+24.6	+26.7			+10.5
Peoria							
Peoria		\$ 171	46,040 ^c	\$16,464		\$ 189	\$ 170
Percentage Change from	{ Jan., 1951.	-93.2	-7.0	-20.0	-10.6	-21.0	-6.0
	{ Feb., 1950.	-28.2	+19.0	+23.8	+18.3	+33.7	+17.4
Quincy							
Quincy		\$ 103	7,782	\$4,449		\$ 30	\$ 59
Percentage Change from	{ Jan., 1951.	-12.0	+12.8	-24.6	-14.0	-16.8	-4.3
	{ Feb., 1950.	-12.0	+30.0	+19.3	+22.0	+15.2	-5.7
Springfield							
Springfield		\$ 153	22,385 ^c	\$11,762		\$ 74	\$ 176
Percentage Change from	{ Jan., 1951.	-75.5	-3.7	-22.7	-8.0	-19.6	-15.7
	{ Feb., 1950.	-5.6	+13.9	+23.2	+37.9	+21.4	+1.6
SOUTHERN ILLINOIS							
East St. Louis							
East St. Louis		\$ 34	10,483	\$7,756		\$ 106	\$ 45
Percentage Change from	{ Jan., 1951.	-69.6	-10.2	-24.0	n.a.	-25.2	+8.3
	{ Feb., 1950.	-57.5	+21.5	+20.4		+18.8	+9.1
Alton							
Alton		\$ 49	10,032	\$4,063		\$ 24	\$ 25
Percentage Change from	{ Jan., 1951.	-78.4	-12.4	-31.3	n.a.	-19.5	+1.5
	{ Feb., 1950.	-81.6	+6.6	+13.8		+18.7	+29.1
Belleville							
Belleville		\$ 10	4,753	\$3,626		n.a.	\$ 34
Percentage Change from	{ Jan., 1951.	-78.7	-3.9	-23.8	n.a.		-18.4
	{ Feb., 1950.	-70.6	+19.6	+15.0			+10.7

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for January, 1951, the most recent available. Comparisons relate to December, 1950. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

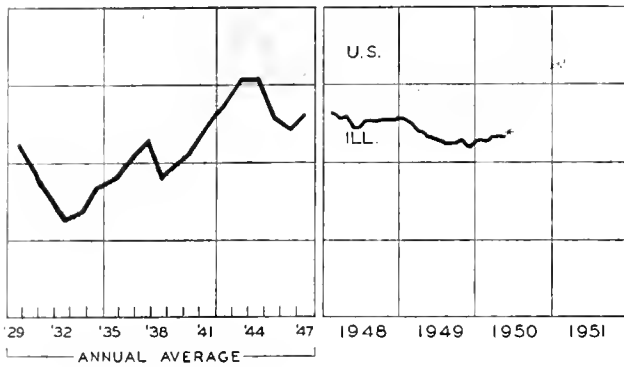
^c Includes immediately surrounding territory.

n.a. Not available.

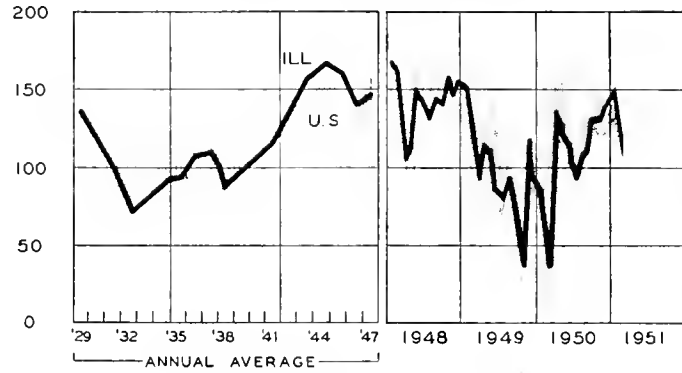
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

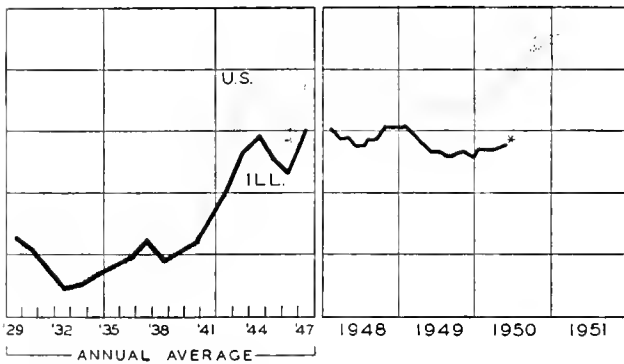
EMPLOYMENT-MANUFACTURING



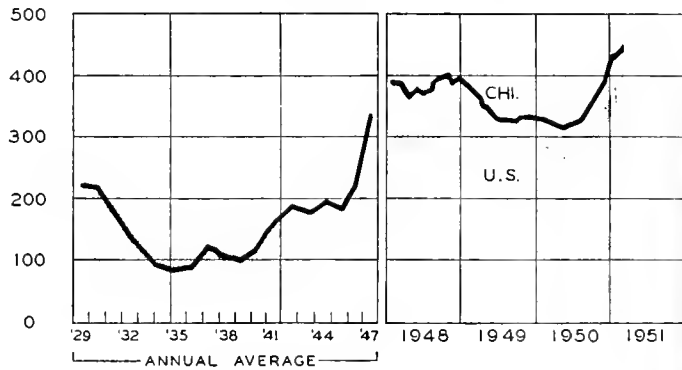
COAL PRODUCTION



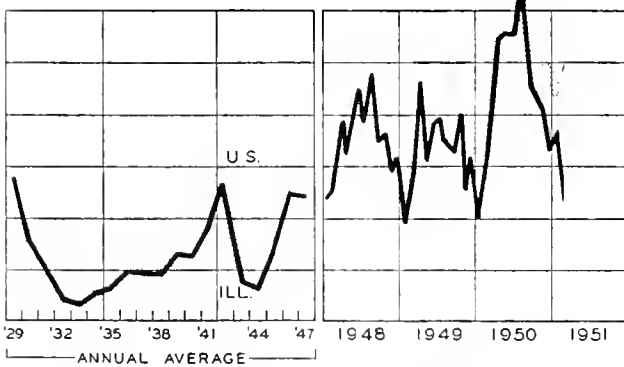
PAYROLLS-MANUFACTURING



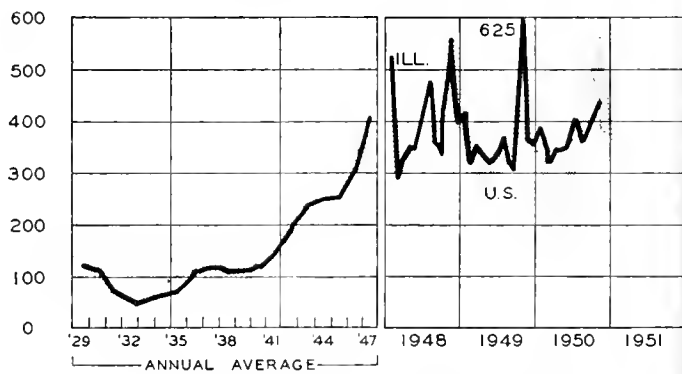
BUSINESS LOANS



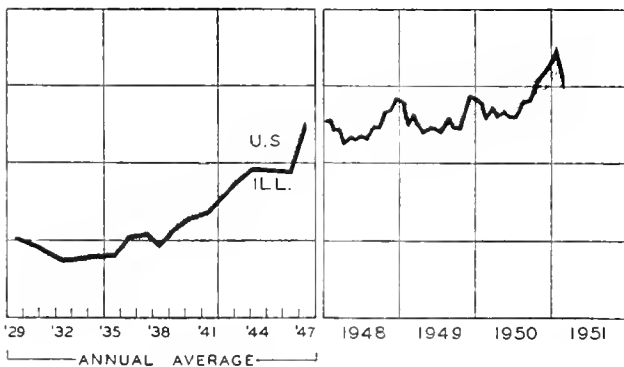
CONSTRUCTION CONTRACTS AWARDED



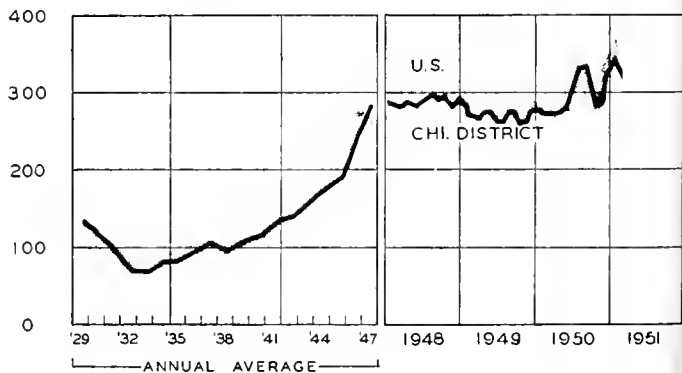
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



* Illinois figures being revised.

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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NUMBER 5

HIGHLIGHTS OF BUSINESS IN APRIL

With the exception of seasonal movements, business activity in April showed little change from the levels of the preceding month. The Federal Reserve index of industrial production remained at about the March postwar high of 222 percent of its 1935-39 average. However, the stability of the over-all index conceals divergent production trends within the total. The output of autos and other consumer durables was reduced, whereas military production was stepped up. Continuance of these trends is expected in view of the restrictions on civilian production and the projected expansion of military programs. Since the first of the year military orders have been placed at a rate of \$1 billion or more each week. As yet, only a small part of these orders have been filled, and upwards of \$50 billion of additional orders are still to be placed by June, 1952.

Unemployment Near Postwar Low

Only 3 people out of every 100 in the labor force were unemployed in April. The 1.7 million unemployed in the month represents a decline of 20 percent from the March level and is the lowest point since October, 1948.

Nonfarm employment declined to 53.4 million in April, largely as the result of the withdrawal of numerous workers from temporary jobs during the Easter shopping season. Farm employment picked up seasonally, with the result that total employment remained almost stationary at 60 million.

Prices Level Off

Little change in prices was evident in April. The Bureau of Labor Statistics wholesale price index varied but slightly from its month-end figure of 183.4 percent of the 1926 average. Meat was the only major category to register much of an increase during the month, up 1.7 percent. The highly sensitive index of 28 basic commodity prices declined fractionally in the month. Compared with April of last year, however, the index has registered an increase of almost 50 percent. The parity ratio declined slightly to 109 in the month ended April 15, as prices paid by farmers rose one percent and prices received fell off.

Further measures to limit price increases were announced by the Office of Price Stabilization in April. The main step was the issuance of an order effective May 28 basing manufacturers' ceiling prices on their pre-Korean

base-period prices (generally April 1-June 24, 1950) plus dollars and cents increases in factory costs through March 15. Approximately 75,000 industrial concerns with annual sales of \$70 billion will be affected; wholesalers and retailers will be required to reflect the reductions in manufacturers' prices.

Construction at April Peak

The construction boom is rolling along, but significant shifts in the different types of construction are appearing as material shortages and various restrictions are beginning to be felt. (Chart, p. 6). The value of new construction put in place in April set a new record for the month at \$2.4 billion, up 18 percent over the April, 1950, level. Private home building, however, rose only 3 percent, and even that was due solely to higher building costs. Construction of stores, restaurants, and similar commercial buildings declined from the preceding month. The slack in these sectors has been taken up by sharply increased public building and private industrial construction.

New construction activity in the first four months of this year aggregated nearly \$8.5 billion, 20 percent above the corresponding period of 1950. Public building outlays were up 25 percent over the same period.

Manufacturers' Orders and Sales Continue to Expand

Despite a more-than-seasonal increase in sales in March, new orders received by manufacturers outstripped sales by nearly \$5 billion. However, more than half of the \$3.8 billion increase in new orders over February is attributed to seasonal influences and the longer work month.

Almost all of the excess of new orders over sales occurred in the durable-goods lines; new orders placed with nondurable-goods producers about equalled their March sales. As a result, backlogs of the durable-goods industries were up to \$44 billion at the end of March, composing over 85 percent of the total and over two and one-half times their size in March, 1950.

Inventory holdings were also up in March, book values rising by \$900 million to \$36.4 billion after seasonal adjustment. The increase was almost equally divided between durable- and nondurable-goods manufacturers. About half of the increase represented further accumulation of physical stocks.

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Voluntary Credit Restraint

In the pell-mell rush to make stabilization measures effective, it is natural that attention should focus on the immediate problem. There simply doesn't seem to be time for an evaluation of longer-run consequences that might lower our future economic efficiency. Illustrative is the new credit-control program, officially called "The Voluntary Credit Restraint Program."

This program was launched in mid-March by the Federal Reserve Board, with the approval of the Department of Justice and the Federal Trade Commission. The Board requested all financing institutions to conform to the provisions of the program, which was designed to restrict lending operations to "sound lending"—defined as that which would "commensurately increase or maintain production, processing and distributing of essential goods and services."

A National Committee was formed to carry out the program. It consists of twelve members, four representing the investment bankers, four representing the life insurance companies, and four representing the banks. This Committee was to promulgate the principles of the program, organize subcommittees, and take such other actions as appeared appropriate to ensure the proper functioning of the program. It quickly set up three series of Regional Committees—one each for commercial banking, insurance, and investment banking.

How the Program Works

The first point of attack was on inventory loans. The Committee asked all financing institutions to "refrain from financing inventory increases above normal levels relative to sales, or reasonable requirements by other conservative yardsticks." Subsequently, it urged them to cut down loans for all nonessential business expansion, particularly loans for improving competitive positions or for expanding and modernizing facilities in lines of business not related to defense.

The effectiveness of the restraint imposed by this program evidently depends upon the degree to which lending institutions can act together in banning certain kinds of loans. This was recognized at the outset. In announcing the program, Reserve Board Chairman McCabe stated: "With this new approach, groups of institutions in a community will be able to band together under legal sanction to halt the 'shopping around' for

loans which has been the principal weakness in voluntary efforts to date."

An illustration of how the program works has recently come to our attention. A firm that wanted to buy and merge a plant of another firm could not get a loan from its bank, because mere transfer of existing facilities was involved. When it suggested that it might get the loan by going to the rival bank across the way, the firm was told that the Committee would not let that bank make the loan either. In fact, the firm found, on trying a number of banks, that all had been "advised" by the Committee not to make the proposed loan.

Here is a case where the program was effective in making the refusal of a loan stick. Is this example likely to be multiplied so many times as to produce the desired effect? And what are its longer-range implications?

No Force, No Effect

Last month we pointed out the essential weaknesses of credit restriction as an emergency measure. The Voluntary Restraint Program attempts to overcome a major shortcoming of over-all credit tightening by confining the restriction to nonessential activities. On the other hand, it has the deficiencies inherent in any voluntary program; and, like the mandatory method, it cannot touch the wholly illogical discrimination between those who need financing and those with alternative resources, who can go ahead without it.

The criteria established under the Voluntary Restraint Program give the banker little real basis for judging loan applications. Most businesses have some "defense" or "essential civilian" angle, which can be advanced as the ostensible reason for the loan. During World War II this was almost standard practice in presenting claims for assistance. Without a mechanism for verification and policing, the banker is in no position to cope with the borrower who is willing to give a misleading impression of the purposes to be served by the loan.

In this situation, with all its indeterminate elements, the judgment of the lender is likely to be both adaptable and flexible. Wide latitude in interpretation is possible, and justification seems almost inevitably to run to conformity with self-interest.

As against this tendency, a voluntary program cannot enforce conformity with over-all policy. If the substantive interests of the participating group are adversely affected, it is impossible to get agreement and cooperation. If they are not affected, either the program is ineffective or it operates to the disadvantage of others, with a possible conflict situation in the offing as the affected interests seek protection.

It is an old maxim that there can be no control without enforcement. Any program must be given "teeth" if it is to work; but giving a voluntary program "teeth" involves extending and aggravating the use of power to abridge competition. It is a cost we would have to incur if the need were urgent. But the situation today is not so critical as to demand such action, nor is there anything credit control could accomplish that can't be done better by other measures already in effect.

Selling a Birthright

But why complain about a program merely because it can't do everything? Are not its effects, however limited, in the right direction?

Obviously, these are logical questions. If the immediate effects were all that need be considered, any

(Continued on page 6)

LUGGAGE

Recreational travel has been expanding remarkably in recent years, and today tourists and vacationers represent an increasing proportion of what is now the largest market in the history of the luggage industry. At the present time, four-fifths of the employees of private industry and 97 percent of all office workers are getting paid vacations, and most of them spend at least part of their holiday traveling.

The result has been an increasing demand for luggage of all kinds. To meet this demand the modern luggage industry makes a great variety of suitcases, bags, and trunks for the nation's travelers. Subsidiary lines include salesmen's cases, school bags, foot lockers, and briefcases.

Illinois Outstanding in This Growing Industry

By 1947 the total value of products shipped by the luggage industry was a record \$134 million, double the previous high in 1929. The Midwest area accounted for 25 percent of the industry's 16,000 workers, the largest number ever employed in luggage manufacturing.

Illinois was the third ranking state in the industry in 1947, producing \$14 million worth of luggage, 10 percent of the national total. Illinois production value was only slightly less than that for New Jersey, however, and the State ranked second to New York in number of luggage manufacturing concerns and employees.

Almost all the 59 Illinois luggage producers listed by the 1947 Census were located in Chicago. Illinois firms in the industry had a total employment of almost 1,800, an average of 30 workers per firm, compared with a national average of 27. That the luggage industry as a whole is made up of a large number of small establishments is further indicated by the Census report that in 1947 almost three-fourths of the nation's luggage manufacturers had fewer than 20 employees.

Illinois Outstanding in This Growing Industry

Since the earliest days, luggage has been designed to suit current modes of transportation and has changed in style as the means of travel changed and improved. The stagecoach brought larger-size suitcases and small trunks, previously too cumbersome for easy transportation. As rail travel grew popular the luggage market expanded and the variety of cases and bags available increased.

Finally, in the twentieth century the automobile and the airplane made frequent and extensive traveling possible for more and more people. The growing popularity of air travel has increased the trend toward lightweight, easily handled luggage and has inspired such radical changes in construction as the hand luggage series made entirely of aluminum.

In 1947 over half of the industry's value of product was in hand luggage, primarily bags, suitcases, and Gladstones. Trunks and briefcases each contributed about 10 percent of the total. Of the \$82 million worth of hand luggage, two-thirds was designed for use by women.

In addition to ordinary types of luggage, the industry has made a number of items for the military forces. Among the many products manufactured by the luggage industry during World War II were army trunk lockers, instrument cases, duffle bags, cartridge belts, rifle holsters, and luggage for post exchanges and ships' stores.

Types of Construction

Hand luggage may be either hard or soft in construction. What is known as "soft" luggage includes suitcases built over a steel frame with a flexible leather backing, and Gladstones, which have a similar construction but open up flat like a book and are hinged at the bottom. The hard type of suitcase may be built over a rigid fiber foundation, a steel frame, or a solid plywood box molded in one piece under intense pressure.

The industry uses a variety of covering materials, especially for hard luggage, but the most important single covering is still leather. The tanneries operated by the large meat-packing establishments in Chicago provide a convenient source of leather stock for the luggage makers in Illinois.

Cows, sheep, and goats account for about 95 percent of the world's supply of leather. The largest source is cattle hides, the raw material for the saddle leather and natural rawhide that have been increasingly popular materials for luggage.

Although luggage has been traditionally leather-covered, 60 percent of the value of hand luggage produced in 1947 came from the sale of non-leather products. One common type of covering is canvas, trimmed with cowhide, which is the usual binding for almost all non-leather luggage.

Synthetic Materials

Luggage canvas is usually waterproofed or otherwise treated for durability, sometimes by the application of a plastic coating. One of the newest materials used by the industry is completely synthetic plastic sheeting, supported by a cotton backing. It comes in a variety of colors, grained to simulate the finest leathers, and is said to resist water, dirt, and rough treatment.

Another synthetic material expected to find wide use as a leather substitute in luggage production is Neolite. Made by Goodyear, it has already successfully invaded the manufacture of shoe soles, almost half of which are now made of materials other than leather. So far about a dozen manufacturers are making handbags, valises, briefcases, and similar articles of Neolite, which is tough, light, and waterproof, and can be finished like cowhide or alligator.

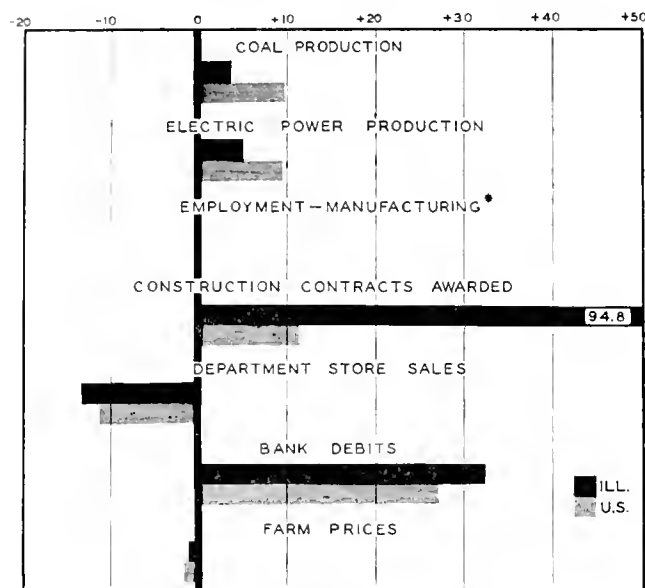
The trend toward non-leather materials for luggage manufacturing was intensified by the increase in leather prices after the start of the Korean war. Whether the trend away from leather construction is permanent or not, luggage has proved to be still another field in which synthetics have started to take over from the materials provided by nature.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes February, 1951, to March, 1951



* Figure for Illinois not available.

ILLINOIS BUSINESS INDEXES

Item	March 1951 (1935-39 = 100)	Percentage Change from	
		Feb. 1951	March 1950
Electric power ¹*	317.9	+ 4.7	+14.4
Coal production ²	121.3	+ 3.2	-11.8
Employment—manufacturing ³	n.a.		
Payrolls—manufacturing ³	n.a.		
Dept. store sales in Chicago ⁴	226.8 ^a	-13.5	+ 6.1
Consumer prices in Chicago ⁵	189.1 ^b	+ 0.3	+ 9.3
Construction contracts awarded ⁶	495.1	+94.8	+10.3
Bank debits ⁷	400.7	+32.6	+25.5
Farm prices ⁸	279.9	- 0.3	+30.5
Life insurance sales (ordinary) ⁹	219.6	+19.8	+ 7.7
Petroleum production ¹⁰	226.0	+14.6	- 6.8

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Repts.; ⁹ Life Ins. Agency, Manag. Assn.; ¹⁰ Ill. Geol. Survey.

* Seasonally adjusted. ^a New series. Old series index for March was 190.0. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	March 1951	Percentage Change from	
		Feb. 1951	March 1950
Personal income ¹	242.5 ^a	+ 0.6	+10.6
Manufacturing ¹			
Sales.....	280.8 ^a	+ 3.1	+31.5
Inventories.....	36.4 ^{a, b}	+ 2.5	+25.1
New construction activity ¹			
Private residential.....	10.2	+ 3.4	+14.4
Private nonresidential.....	8.8	+ 7.2	+27.6
Total public.....	6.5	+25.9	+24.5
Foreign trade ¹			
Merchandise exports.....	15.4	+19.1	+49.0
Merchandise imports.....	13.2	+21.3	+65.4
Excess of exports.....	2.2	+ 7.1	- 7.2
Consumer credit outstanding ²			
Total credit.....	19.4 ^b	- 0.8	+18.6
Installment credit.....	13.0 ^b	- 0.7	+17.2
Business loans ²	19.2 ^b	+ 2.5	+39.3
Cash farm income ³	25.2	+16.7	+31.3
Indexes (1935-39 = 100)			
Industrial production ²			
Combined index.....	222 ^a	+ 0.5	+18.7
Durable manufactures.....	276 ^a	+ 1.8	+30.8
Nondurable manufactures.....	200 ^a	0.0	+10.5
Minerals.....	158 ^a	0.0	+ 9.7
Manufacturing employment ⁴			
Production workers.....	168	0.0	+14.2
Factory worker earnings ¹			
Average hours worked.....	109	+ 0.5	+ 3.5
Average hourly earnings.....	262	+ 0.4	+10.0
Average weekly earnings.....	287	+ 0.9	+13.9
Construction contracts awarded ⁵	536	+11.1	- 2.5
Department store sales ²	290 ^a	-11.0	+ 5.8
Consumers' price index ⁴	185 ^a	+ 0.4	+ 9.6
Wholesale prices ⁴			
All commodities.....	228	+ 0.2	+20.5
Farm products.....	268	+ 0.6	+27.9
Foods.....	236	- 0.5	+20.0
Other.....	212	+ 0.3	+18.0
Farm prices ³			
Received by farmers.....	291	- 0.6	+31.2
Paid by farmers.....	224	+ 1.4	+12.4
Parity ratio.....	111 ^d	- 1.8	+16.8

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.

^a Seasonally adjusted. ^b As of end of month. ^c New series 184.5; old series 184.5. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1951					1950
	April 28	April 21	April 14	April 7	March 31	April 29
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,737	1,772	1,662	1,752	1,698	1,853
Electric power by utilities.....mil. of kw-hr.....	6,674	6,730	6,747	6,736	6,767	5,902
Motor vehicles (Wards).....number in thous.....	153.6	157.0	152.9	148.3	175.0	141.3
Petroleum (daily avg.).....thous. bbl.....	6,069	6,061	6,034	6,042	5,957	4,943
Steel.....1935-39 = 100.....	231.3	230.4	229.1	229.3	231.8	214.2
Freight carloadings.....thous. of cars.....	825	810	778	740	755	745
Department store sales.....1935-39 = 100.....	293	281	288	292	258	285
Commodity prices, wholesale:						
All commodities.....1926 = 100.....	183.6	183.1	183.0	183.3	183.9	153.7
Other than farm products and foods.. 1926 = 100.....	171.7	171.8	171.9	172.1	172.3	146.6
28 commodities.....August, 1939 = 100.....	372.9	372.7	374.1	374.8	378.6	250.7
Finance:						
Business loans.....mil. of dol.....	19,127	19,198	19,262	19,206	19,202	13,475
Failures, commercial.....number.....	162	151	172	195	136	186

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production About Level

Industrial activity remained at the March level of 222 percent of the 1935-39 average during April, according to the Federal Reserve Board's preliminary estimate. Steel output continued at a record rate during the month, averaging nearly 103 percent of the industry's rated capacity, or more than 2 million net tons of ingots and castings each week. At the end of April, the industry had been producing at better than capacity rates for eight consecutive weeks. However, since scrap supplies were getting tighter, some slackening may appear. An estimated 25 percent of total steel output is now subject to priority allocation; for some companies the proportion is estimated as high as 40 percent.

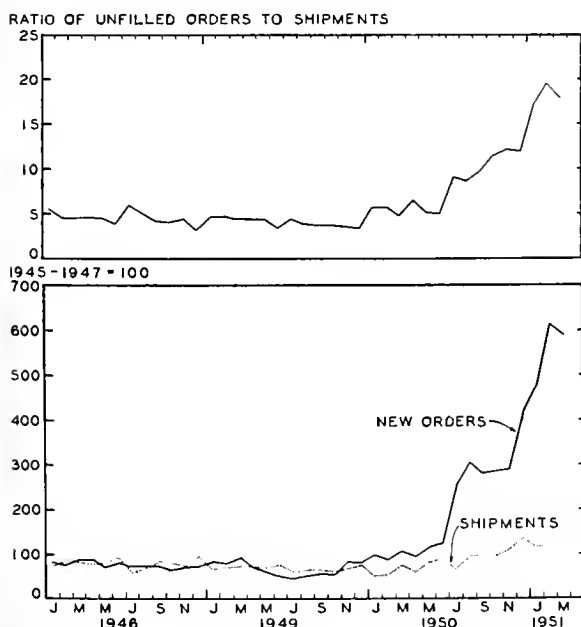
Automotive production in April was off about 5 percent from first-quarter levels, according to the FRB; weekly output averaged slightly more than 150,000 cars and trucks. Several of the smaller manufacturers—Nash, Hudson, Packard, and Kaiser-Frazer—have begun to suffer from material supply difficulties.

Machine Tool Orders High

Some idea of the effect of mobilization on the economy can be gained by looking at developments in the machine tool industry. The fact that conversion from peacetime products to defense matériel commonly requires different tools is plainly shown by data on new orders and shipments. As illustrated in the accompanying chart, new orders for machine tools began an upward movement early in 1950 after a long period during which they consistently fell below the 1945-47 average level. With the outbreak of war in Korea, orders began to rise sharply, and by February, 1951, they had reached 615 percent of the base average. In March new orders fell slightly but remained high. Average monthly new orders during the first quarter of this year were the highest since the first and second quarters of 1942.

Shipments have also increased, but much less rapidly,

MACHINE TOOLS: ORDERS AND SHIPMENTS



Source: National Machine Tool Builders' Assn.

to nearly 60 percent over the base average. As a result of the faster rise in new orders, the ratio of unfilled orders to shipments rose from a level of about 5 to 1 to a ratio of nearly 20 to 1. The Department of Commerce has estimated that although price increases have been important in the rise in new orders, the advance in physical volume has been substantial.

Employment Off Slightly

Employment dropped somewhat in the April survey week as more than 500,000 workers left the labor force. Unemployment was down by 400,000 to 1,744,000, the lowest point since October, 1948. Unemployment data have not as yet given any evidence of the substantial transitional unemployment expected as the switch-over from peace to defense was made. In fact, the continuing concern is with shortages, especially of certain skills and professions.

Bureau of Census data, in thousands of workers, are as follows:

	April 1951	March 1951	April 1950
Civilian labor force.....	61,789	62,325	62,183
Employment.....	60,044	60,179	58,668
Agricultural.....	6,645	6,393	7,195
Nonagricultural.....	53,400	53,785	51,473
Unemployment.....	1,744	2,147	3,515

Retail Sales Lag

Some slowdown was observed in retail sales during March. Even though dollar sales increased 11 percent to \$12.6 billion, practically the whole of the advance was attributable to higher prices. Physical volume was little if any higher than that of March, 1950. After adjustment for seasonal factors, March sales dropped 5 percent from the February level. Much of the month-to-month decline appeared in durable goods such as used cars, TV sets, and household appliances. Among nondurables, apparel and general merchandise showed sizable decreases. Despite the drop, however, March sales remained high and were exceeded only by the buying-spree months of last July and August, and of January and February, 1951.

An experimental survey of buying intentions made by the Federal Reserve Board indicates that the earlier satisfaction of the most urgent consumer demand, especially for cars and appliances, may account for the slowdown. The survey suggests a lower level of demand this year for cars, but not much change in buying plans for major appliances. There seems to be more uncertainty, however, as to what will be bought and just when it will be purchased.

Business Loans Off

From a postwar high of \$19.3 billion on April 11, outstanding bank loans to business firms had dropped to \$19.1 billion two weeks later. Diverse movements were recorded in the twelve Federal Reserve districts for the four-week period, with most changes small. The only exception was the New York District, where there was a net decrease of \$117 million, or 1.6 percent.

Even though the net drop of \$75 million for the four weeks ended April 25 is not a large one, it marks a departure from the pattern of earlier months when increases of several hundred million dollars were common. Various explanations may be advanced for the change: a slack season is approaching during which business loans customarily drop off; banks have joined the effort

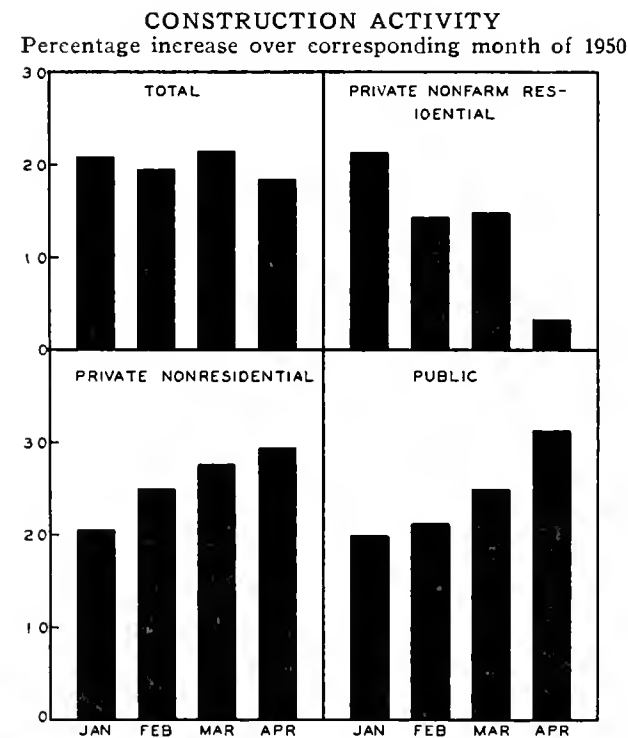
to hold lending to an "essential" level; and retailers, one of the large borrowing groups, are reported as finding themselves able to adjust their inventories to a less volatile sales level.

Consumer credit outstanding declined during March for the third month. A net decrease of \$161 million cut the total to \$19.4 billion. Installment credit was off \$95 million to \$13.0 billion, mainly as a result of sizable drops in installment sale and automobile purchase credits. Charge accounts likewise decreased. The Federal Reserve Board pointed out that consumer credit usually rises during March; apparently Easter sales were insufficient to start the customary spring upturn.

Construction Continues to Rise

Building activity continued its spring rise during April, with construction put in place valued at more than \$2.3 billion. This compares with \$2.1 billion of new construction in March. Private residential building was up 7 percent from the March level to \$911 million; private nonresidential construction, at \$777 million, was up more than 6 percent. Public construction rose 22 percent to \$665 million, with substantial increases shown in nearly all categories.

Even while building is increasing from month to month shifts in the types of construction are becoming apparent, as illustrated in the accompanying chart. At the same time that total construction was showing increases of 18 to 22 percent over corresponding months of 1950, the rate of increase in private nonfarm residential building had dropped from more than 21 percent to a little more than 3 percent. The entire 3 percent, according to the Departments of Labor and Commerce, was the result of higher costs, since volume in February and March was already below similar months of 1950. Private nonresidential and public construction, on the other hand, showed increasing rates of expansion over last year, as industrial, farm, public utility, and all types of public construction made substantial advances over 1950.



Source: U. S. Depts. of Commerce and Labor.

Voluntary Credit Restraint

(Continued from page 2)

objection would be little more than a quibble. But there is a danger; for such a program introduces not only a new form of control, but also a modification of usual ways of doing business. If normal competitive lending is curtailed, economic growth and efficiency will be obstructed.

This danger was, of course, foreseen. The Federal Reserve Board attempted to deal with it by providing that the program is subject to termination "upon withdrawal by the Board of its request for action." But is this a device that can be turned on and off at will? People who have become accustomed to acting in concert do not cease doing so merely because they are no longer requested to. Once a system of relations is built up, it tends to perpetuate itself. Even those who wish to withdraw may nevertheless be forced to conform.

It is clear that the Board regards the program only as a temporary tool of stabilization policy—a tool that had to be developed because its traditional powers have been rendered ineffective by the manner of financing World War II. Moreover, there is nothing at this time to indicate the continuation of the program beyond the period of the defense emergency. Outstanding men have been selected to head the committees charged with operating the program. Possibly none of them has thought beyond the immediate task to which they have undertaken to devote themselves in a period of emergency. But once the immediate problem is resolved—and on the inventory side, at least, it is already largely resolved—what will be the orientation of its operations?

It seems possible that this business of giving the lender a means of preventing the borrower who does not like a decision from going to the rival across the way may be putting just too much temptation into the hands of the lender.

It seems more than just possible that here, again, new channels of policy formation may develop from a temporary "need." Under our form of political and economic organization, organized pressures tend to dominate. The pressures immediately and directly effective in this instance are those of the banks and other financing agencies. Let these be well organized and the Board's power to make decisions is correspondingly restricted. Should this occur, it would not be the first time that an organization came to be dominated by its own creation.

The history of government action in organizing industry for emergency objectives is certainly not encouraging from this point of view. In World War I, a great stimulus was given, by government action, to collective industrial action. In the depression, the NRA tightened the lines of industrial control. This process was extended and made more effective during World War II by the organization of innumerable industry committees. Each time such a program is undertaken, the economy moves toward a situation where economic action is more completely under the domination of expanding concentrations of industrial control.

It seems appropriate to ask, therefore, whether the Federal Reserve Board, in attempting to build new powers, is not merely doing for the financial community what has already been done in other lines of industry. Isn't it, in the hope of accomplishing a little now (and at best it can be only a little), instituting forces that will interfere with the free functioning of the economy? This is a question to which all concerned should give the fullest consideration.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Glass Soldered to Metal

A process which solders glass to metal with a bond stronger than the glass itself is now being used by General Electric. The glass and metal areas to be soldered are painted with a thin layer of titanium hydride, and solder is applied to both painted areas. The parts are placed together and then heated under a vacuum. When the temperature reaches about 900 degrees F. the titanium hydride decomposes, causing the molten solder to adhere to the titanium-painted areas of both glass and metal. A strong, tight bond is formed upon cooling. Because soft metal solders are used, it is possible to subject this glass-to-metal seal to rapid temperature changes without danger of cracking, despite wide differences in glass and metal temperature expansion. The method, which can also be used to solder metal to ceramics and carbon, is being tested for industrial applications such as the manufacture of aircraft ignition systems, transformers, and electric motors.

Christmas Catalogs

Of special interest to retail advertising, merchandising, and sales promotion executives is an analysis of the contents of department store Christmas catalogs for 1950 that has been prepared by Ralf Shockey and Associates, Inc. (350 Fifth Avenue, New York 1, N. Y.). The study offers a detailed inventory of well-known mail order gift merchandise in terms of times shown or mentioned and prices. Basis for the report was a group of 78 catalogs and multiple-page mailing units issued by department stores throughout the nation. Use of photography and other format factors are discussed, as well as 175 classes of merchandise from cosmetics to china.

Mining Coal With Compressed Gas

A new device developed by duPont is said to be the most important method devised for breaking down coal since the introduction of explosives early in the century. A self-generating charge of compressed gas approximating 20,000 pounds of pressure per square inch is used to rip coal faces apart, eliminating the need for powder charges or other explosives emitting flames or sparks that might set off deadly underground explosions. The device consists of a steel tube enclosing a chemical unit which is placed in a hole drilled in the coal face. An electrical current activates a chemical reaction which liberates gas until a predetermined pressure is built up, when the disc end of the tube ruptures and releases the gas. The tube is refilled in the mine with another chemical unit and disc and may be used repeatedly.

Heat-Resistant Paint

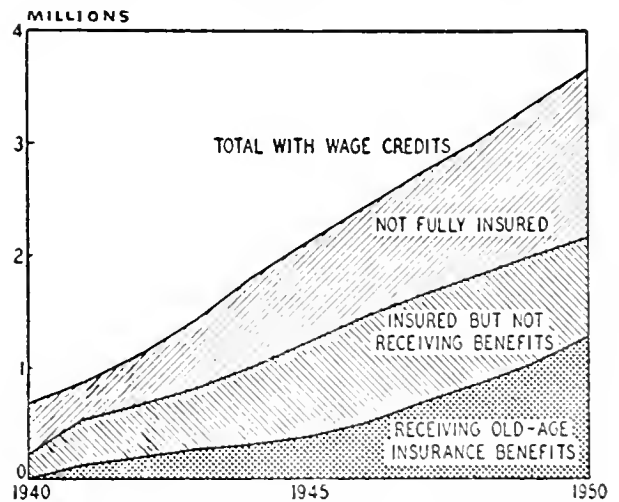
Paints said to be capable of withstanding temperatures as high as 1900 degrees F. are now being manufactured by Fire-Gard, Inc. (1424 K Street N. W., Washington 5, D. C.). Available in aluminum, black, white, and colors, they form a bright finish on wood or metal surfaces. Because they resist moisture, mild acids and alkalis, and oxidation, the new paints are expected to find wide use for surfaces often thought to be unpaintable because of deterioration by high temperatures or other corrosive influences.

Social Security Retirement Test

The April issue of the *Business Record*, published by the National Industrial Conference Board, contains a discussion of the recent changes in the Social Security Act entitled "The Retirement Test Today." Amendments to the Act in 1950 increased to \$50 a month the amount a beneficiary may earn in covered employment without forfeiting his benefits. However, fewer opportunities are allowed to earn income in noncovered employment since self-employment is now included in the \$50 a month limit. Although the benefit itself was raised considerably by the amendments, the insured person who defers his retirement beyond age 65 no longer receives any increase in his benefit for the extra years he may work.

Statistics suggest that old age insurance benefits have not been very effective in encouraging older persons to leave work voluntarily. Only about 5 percent of the men and women entitled to such benefits between 1940 and 1947 left their jobs of their own accord, in good health, to retire. The remainder of the "oldsters" who did not continue working were either forced to retire or died. As shown by the chart, there were 1.3 million people over 65 receiving old age insurance benefits in January, 1950, compared with a total of 3.7 million with wage credits. About 900,000 fully insured persons of retirement age were still working in covered employment.

PERSONS AGED SIXTY-FIVE AND OVER COVERED BY THE SOCIAL SECURITY ACT



Source: Conference Board *Business Record*, April, 1951, p. 146.

Radiant Heating Costs Cut

Products Planning Company (Pittsburgh, Pa.) has developed a new type of concrete, which is expected to reduce the cost of radiant heating and extend its many advantages to most types of new buildings without its previous price handicap. Special aggregates are blended and added to concrete which greatly increase its heat conductivity and wearing qualities. Higher heat conductivity is expected to allow a saving of from 25 to 30 percent per installation in the quantity of pipe required with standard concrete.

DEVELOPMENTS IN CORPORATE FINANCING

ELI SHAPIRO

Associate Professor of Finance, University of Chicago

The years since 1945 have been characterized, with the exception of 1949, by high levels of employment and income and rising prices. One important reason for the high level of economic activity was the very large volume of private domestic investment. During the 1946-50 period, as shown in the table, nonfinancial corporations used an average of \$26 billion annually to finance plant and equipment expenditures, expansion of inventories, expansion of accounts receivable, and increases in cash and other current assets. The dollar requirements for funds were unprecedentedly large in comparison with any similar number of years in our economic history.

Over 60 percent of the funds needed by corporations was obtained internally from retained profits and depreciation allowances. The remainder was obtained from external sources. Net issues of securities supplied 15 percent of total funds; for the most part, these securities were bonds, not common stocks. Bank loans (including mortgage loans) and changes in trade debt each provided about 8 percent of total funds. Additions to current liabilities, including increases in Federal income tax liabilities, furnished the remaining sources of funds.

In the aggregate, current debt-equity ratios in the capital structures of American corporations compare favorably with those of the late twenties. Net corporate indebtedness currently is markedly lower in relation to corporate profits than was true in those prosperity years. Annual interest charges on corporate indebtedness comprise a very much smaller fraction of corporate net income in the years since World War II than was true in 1929. Corporations are far more liquid today, judged

by conventional liquidity ratios, than was true prior to the Second World War.

External sources of funds have been available to corporations on the most favorable terms in debt form. However, if one takes into account equity financing through retained earnings, as well as new stock issues, the ratio of equity funds to all increases in corporate assets was about the same in the postwar years as in the mid-twenties. It should be noted, however, that in the process of obtaining such large amounts of equity funds, which stemmed mainly from retained earnings, corporations were forced to pay out a smaller proportion of earnings in dividends than in the middle and late twenties.

Despite the frequent assertions in the postwar years that there was a shortage of equity capital, corporations were adequately supplied with funds to finance their expansion programs along conservative lines during the period of very high investment following 1945.

Need for Additional Funds

At any point in a country's economic development, business demand for funds is largely determined by prevailing levels of employment, industrial production, construction activity, and prices. In a period of full employment and rising prices additional working capital is required for purchasing and carrying inventories, meeting payrolls, extending trade credit, and meeting the increased level of general overhead expenses. Additional long-term funds in either borrowed or equity form are needed to finance the construction of productive facilities and the purchase of machinery and equipment.

Plant and equipment expenditures in 1949 fell off by 6 percent from the postwar peak attained in 1948. At the beginning of 1950 planned expenditures for plant and equipment in the year showed a further decline from 1949. Moreover, it was assumed by many that inventories and accounts receivable had more or less come into line with sales and that there would not be a need for the vast sums used in the early postwar years to build up these items.

The outbreak of hostilities in Korea gave business some assurances of high levels of economic activity, which in turn meant that producers would require additional productive capacity. Moreover, the thawing of the Cold War introduced great uncertainty as to the future availability of new production facilities. These factors, in conjunction with government pressure on business

SOURCES AND USES OF CORPORATE FUNDS^a

(In billions of dollars)

Source or Use of Funds	1946	1947	1948	1949	1950 ^b	Total
Uses:						
Plant and equipment outlays.....	11.6	15.0	17.5	16.1	17.0	77.2
Inventories (change in book value)...	11.2	7.1	5.0	-4.6	7.5	26.2
Change in customer receivables.....	4.8	7.5	2.4	-5	6.5	20.7
Cash and U. S. government securities	-4.7	1.0	....	3.0	6.5	5.8
Other current assets.....	-7	-1	.5	-2	.5	....
Total uses.....	22.2	30.5	25.4	13.8	38.5	130.4
Sources:						
Internal						
Retained profits (including depletion).....	7.6	11.6	12.8	8.6	13.0	53.6
Depreciation allowances.....	4.3	5.2	6.0	6.7	7.0	29.2
Total, internal sources.....	11.9	16.8	18.8	15.3	20.0	82.8
External						
Change in trade debt.....	4.0	4.4	.9	-2.2	3.5	10.6
Change in Federal income tax liability.....	-1.6	2.3	.8	-2.4	7.0	6.1
Other current liabilities.....	1.8	.4	....	-1	1.0	3.1
Change in bank loans.....	3.3	2.6	1.1	-1.8	2.5	7.7
Change in mortgages.....	.6	.8	.6	.7	1.0	3.7
Net new issues.....	2.3	4.4	5.9	5.4	4.0	22.0
Total, external sources.....	10.4	14.9	9.3	-4	19.0	53.2
Total sources.....	22.3	31.7	28.1	14.9	38.5	135.5
Discrepancy (sources—uses).....	+1	+1.2	+2.7	+1.1	....	+5.1

Source: U. S. Department of Commerce.

^a Excluding banks and insurance companies.

^b Preliminary estimates rounded to nearest \$0.5 billion.

to expand, led businessmen to revise their plant and equipment expenditures upward in the last half of 1950; actual expenditures for the year were in excess of the 1949 figure. Recent estimates of plant and equipment expenditures indicate that business is planning to spend approximately \$24.0 billion in 1951, or about 25 percent more than the previous peak in 1948.

The book value of inventories has increased sharply since the middle of 1950 under the impact of sharply rising prices and increases in physical accumulation. In the absence of rigid controls on the flow of materials, on prices, and on the level of inventories, increased economic activity should stimulate further increases in the book value of inventories. Assuming that government inventory controls will not be introduced rapidly, the increase in the book value of inventories will be somewhat greater in 1951 than in 1950.

Increases in dollar volume of sales would ordinarily lead to increases in accounts receivable on the books of business; growing shortages will, in all likelihood, reduce competitive selling pressures, thereby moderating credit sales. On net balance, increases in receivables somewhat smaller than those which occurred in 1950 are assumed for 1951.

With increased sales and short-term liabilities one would normally expect increases in holdings of liquid assets by business. Accumulations of liquid assets in 1951 are likely to equal those for 1950; the pressure for spendable funds will probably keep these accumulations below what they would otherwise have been.

Whether the expansion plans of business materialize depends on a host of factors. At this point a thorough-going controlled materials plan is not in effect. Availability of materials and adequacy of financing will be the major factors affecting attainment of business expansion plans.

Potential Shortage of Funds

Will nonfinancial corporations be able to finance increased uses of funds in the neighborhood of 15 percent greater than the 1950 total? Unlike World War II, when the government financed over two-thirds of the value of additional plant facilities put into place, the present mobilization program, for the most part, calls for private financing of new plant and equipment. In his April 26 message to Congress requesting revision of the Defense Production Act, President Truman asked for power to have the government build and operate defense plants, where necessary. If this legislation is passed and utilized, reversion to World War II practices would lessen the need of business for funds discussed above.

Assuming that business financing is predominantly private and that the President's February 2 request to raise corporate normal taxes to 55 percent is enacted, the most reasonable estimates indicate that corporate profits after taxes will be lower in 1951 than in 1950. Depreciation allowances will probably be well above the figure for 1950 as a result of more extensive use of high-cost postwar facilities, high levels of production, and some accelerated amortization charges.

Attention has already been called to the importance of retained earnings as a source of funds to business in the postwar years. The severe limitations on net profits after taxes for 1951 outlined above, coupled with the greater need for funds, will force corporations to rely more on external funds than was true for the postwar period generally. Moreover, it is very likely that they will have to reduce their dividend disbursements below the figure of 50 percent of net profits paid out in 1950.

Federal tax accruals will prove an important source of funds to corporations this year. Since taxes are paid quarterly on the previous year's income, the money is available to the corporation until payment of the tax comes due. Increases in Federal income tax liability provided nonfinancial corporations with \$7.0 billion in 1950 and will account for substantially more in 1951.

Net new security issues which provided nonfinancial corporations with \$4.0 billion in 1950 may account for as much as \$5.0 billion this year. Despite the fall in stock yields, corporations will continue to rely on bond issues because of their cost advantage and the advantages accorded debt financing by the existing tax laws. Interest costs will be higher this year than in preceding postwar years, because of current monetary-fiscal arrangements. Bonds, which earlier in the postwar years sold to yield 2.7 percent, are now priced to yield 3.1 percent and there is some talk that these yields may rise even further. While life insurance companies are reported as currently not undertaking any new financing agreements, it is generally expected that in the second half of the year these institutions will have ample funds to lend to industry as a result of the estimated sharp curtailment in the demand for mortgage financing which competes with industry for life insurance funds.

Increases in debt owed to banks (including mortgage loans) will be larger in 1951 than they were in 1950, and interest charges on these loans will be appreciably higher than last year. Quite apart from the availability of bank credit, increased use of contract prepayments, advances by the government, and some reduction in the rate of inventory accumulation in the latter part of the year should hold down the increase in the demand for bank loans for the year. On the supply side, more restrictive Federal Reserve policies and the Voluntary Credit Restraint Program should moderate the increase in bank credit.

Changes in trade payables in 1951 should be somewhat smaller than in 1950. Government prepayments and advances will rise substantially in the latter half of 1951 and may amount to several billions for the year. These advances are particularly helpful to small and medium-sized firms.

Thus far government aid in financing business has been moderate. The largest measure of assistance has been in the granting of certificates of necessity to qualify for five-year accelerated amortization. This area has been under Congressional fire for some time and may be slowed down; in any case through April 6 only 938 certificates applying to about \$4.0 billion of plant expansion have been approved.

Direct loans by government agencies for financing essential productive capacity and supplies have been inconsequential. The V-loan program, whereby defense producers may get loans from local banks by assigning their contracts as collateral, has been picayune. Congressional approval of a revision of the assignment provisions may stimulate lenders to grant V-loans in much larger quantities. Contract advances and prepayments to contractors and subcontractors are not important thus far but should become a source of substantial sums in the last half of this year as the tempo of war contracts accelerates.

As the year proceeds, many areas of business may discover that shortages of funds prevent needed increases in fixed assets or in working capital. It seems fairly evident that the government will step in to insure that funds will be available to businesses that are important to the mobilization effort.

LOCAL ILLINOIS DEVELOPMENTS

Most business activity in the State during March recorded seasonal gains over February and continued at a considerably higher level than last year. Steel production in the Chicago industrial area was at an all-time high in March. Output of steel in the 6-state area which includes Illinois, up 20 percent from February and 17 percent above March, 1950, also reached an all-time peak.

Electric Power

Power consumption in 16 reporting cities (see chart) was 11.5 percent greater the first quarter of this year than in the first quarter of last year. Most other areas showed larger relative gains than Chicago. Decatur reported the greatest gain, up 33 percent. Five cities reported increases of more than 20 percent for the first 3 months of this year compared with 1950, and none of the cities listed reported declines.

Continued expansion of power production capacity in the State was reported for March. The Illinois Power Company of Decatur announced that it expects to spend a total of \$70 million on construction during the next 3 years. Work has started on the \$25-million power plant which the company is constructing near Hennepin. Putting the first unit into operation will cost \$15 million. This unit will have a generating capacity of 75,000 kilowatts and is scheduled to be completed by the summer of 1953. The company has also been granted permission by the Illinois Commerce Commission to construct a 138,000-volt electric transmission line in Clinton, Washington, Marion, and Jefferson counties.

A multi-million dollar generator, at United States

Steel Corporation's South Chicago Plant, largest of its kind ever built for industrial power production, was scheduled to start operation this month. The new 60,000-kilowatt turbogenerator, large enough to furnish power for a community of 150,000 persons, is the key unit in a project expanding the plant's No. 5 power station.

Public Service Company of Northern Illinois is constructing a new power station on the banks of the Chicago Sanitary and Ship Canal between Lockport and Lemont. The station, twelfth in the interconnected Commonwealth Edison-Public Service power system serving Chicago and northern Illinois, is being erected on a 216-acre tract which will be adequate for the development of a million-kilowatt plant.

New Oil Areas

Discovery of two new oil pools and the possibility of two other fields were reported last month by the State Geological Survey Division. One, the Frogtown North Pool, is located in Clinton County. A second new pool is the Blairsville West in Hamilton County. Possible new fields are being tested in Edwards and Christian counties. Both of the new pools discovered in April appear to be better than average.

Construction

A strong gain was recorded in construction activity in the State in March. The \$82 million of construction contracts awarded during the month exceeded the February total by 95 percent and was 10 percent above March, 1950. The amount for the first quarter of 1951 was a record \$186 million, 14 percent above the same period in 1950.

Ford Motor Company, which has a defense contract for aircraft engines, is engaged in a \$17-million rehabilitation project on the former Dodge-Tucker Plant in Chicago.

Illinois Terminal Railroad is starting construction of a new steel floor on its bridge between Venice and St. Louis. The floor will cost approximately \$1 million and require 4 years to construct. The company also recently placed orders for 275 freight cars, estimated at \$2 million.

Prices

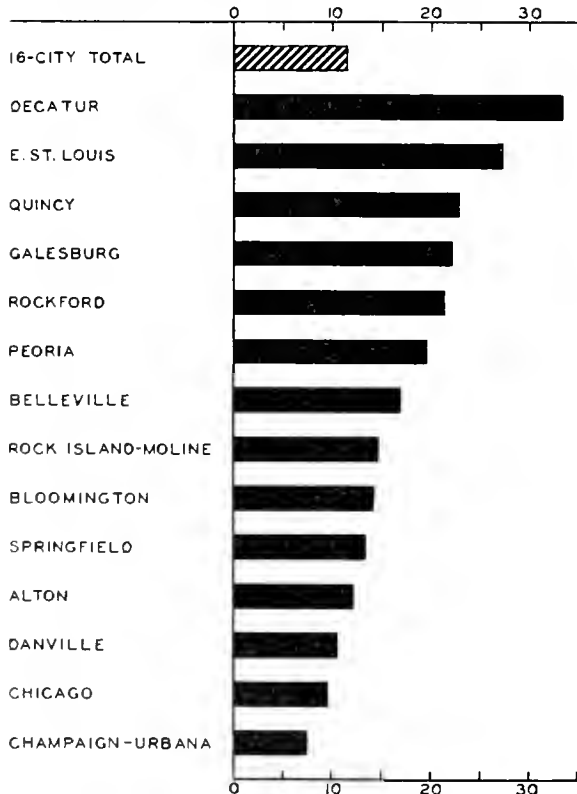
Consumers' prices in Chicago advanced 0.3 percent between mid-February and mid-March, to 189.1 percent of the 1935-39 average, 9.3 percent above March, 1950. Except for food, all major groups of commodities and services contributed to the increase. Food prices decreased 0.6 percent during the period.

Food prices in Springfield also declined fractionally (0.2 percent) in the month ended March 15. The Springfield index of retail food prices was 237.8 percent of the 1935-39 average, 17.8 percent above the level of a year ago. On the other hand, food prices in Peoria continued to advance, raising the Peoria index of retail food prices 0.7 percent between mid-February and mid-March to 238.1 percent of its 1935-39 average.

The index of prices received by Illinois farmers declined 0.3 percent during the thirty-day period, the first decline since October, 1950. Meanwhile, the index of prices paid by farmers increased 1.4 percent and the parity ratio declined 1.8 percent during the period, to 111 on March 15.

ELECTRIC POWER CONSUMPTION

PERCENT INCREASE, 1ST QTR 1950 - 1ST QTR. 1951



Source: Local power companies.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

March, 1951

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
	Feb., 1951	\$44,965 ^a	\$87,640 ^a	\$475,670 ^a		\$12,493 ^a	\$12,385 ^a
Percentage Change from	Mar., 1950	+173.4	-0.1	-3.7	-17.8	+32.6	+22.8
		-77.9	+17.1	+15.8	+10.0	-25.5	-3.1
NORTHERN ILLINOIS							
Chicago		\$37,742	698,539	\$358,882		\$11,429	\$10,804
Percentage Change from	Feb., 1951	+167.4	-0.1	-3.0	+15.5	-33.4	-23.4
	Mar., 1950	+111.0	+11.9	-15.2	-0.2	-25.4	+2.0
Aurora		\$ 456	n.a.	\$6,050		\$ 45	\$ 93
Percentage Change from	Feb., 1951	-93.2		-4.8	-33.2	-28.0	-32.5
	Mar., 1950	-11.6		-14.7	-19.8	-33.2	-13.1
Elgin		\$ 282	n.a.	\$4,437		\$ 30	\$ 81
Percentage Change from	Feb., 1951	+261.5		-7.0	-27.0	+26.6	-16.4
	Mar., 1950	-62.1		-18.6	+11.8	+26.0	-1.2
Joliet		\$ 337	n.a.	\$8,222		\$ 52	\$ 70
Percentage Change from	Feb., 1951	+111.9		-1.9	-32.0	-27.2	-11.2
	Mar., 1950	-15.8		+20.8	+22.5	-29.0	-13.7
Kankakee		\$ 289	n.a.	\$3,903		n.a.	\$ 33
Percentage Change from	Feb., 1951	+117.3		-2.5	-5.5		-22.8
	Mar., 1950	-9.4		-21.9	-11.2		-15.3
Rock Island-Moline		\$1,001	18,351	\$8,708		\$ 37 ^a	\$ 130
Percentage Change from	Feb., 1951	+257.5	+0.1	-1.0	n.a.	-25.8	-3.5
	Mar., 1950	+115.3	+13.6	-20.3		-17.0	-4.5
Rockford		\$1,222	26,521	\$14,290		\$ 145	\$ 184
Percentage Change from	Feb., 1951	+172.8	-2.6	-4.5	-35.9	-32.1	-16.2
	Mar., 1950	-34.1	+29.5	-30.2	-18.9	-36.3	-1.4
CENTRAL ILLINOIS							
Bloomington		\$ 340	4,975	\$4,373		\$ 53	\$ 103
Percentage Change from	Feb., 1951	+1,260.0	-2.5	-8.4	n.a.	+32.2	+48.0
	Mar., 1950	+49.8	-17.1	-9.2		-23.3	-27.0
Champaign-Urbana		\$ 499	7,501	\$5,994		\$ 53	\$ 81
Percentage Change from	Feb., 1951	+310.3	-0.2	-0.9	n.a.	-26.2	-32.1
	Mar., 1950	+44.6	-7.4	-8.2		+22.0	-12.3
Danville		\$ 162	6,843	\$4,668		\$ 43	\$ 47
Percentage Change from	Feb., 1951	-1.8	-7.3	-10.7	+47.3	+27.5	+15.5
	Mar., 1950	-18.6	-6.8	+13.3	+22.3	-26.0	-10.3
Decatur		\$ 98	17,522	\$7,792		\$ 95	\$ 95
Percentage Change from	Feb., 1951	0.0	-2.2	-8.4	+44.5	-37.2	-14.3
	Mar., 1950	-82.4	-32.8	-16.0	-16.5	-30.5	+11.5
Galesburg		\$ 190	5,424	\$3,342		n.a.	\$ 24
Percentage Change from	Feb., 1951	+183.6	-6.3	-10.2	n.a.		-12.5
	Mar., 1950	-15.9	-20.5	-18.1			-15.4
Peoria		\$1,647	46,910 ^c	\$15,270		\$ 209	\$ 194
Percentage Change from	Feb., 1951	-863.2	-1.0	-7.2	+23.5	-10.8	-13.0
	Mar., 1950	-101.3	+20.2	-19.3	+13.7	+22.7	-6.1
Quincy		\$ 156	6,743	\$4,101		\$ 38	\$ 75
Percentage Change from	Feb., 1951	-51.5	-13.4	-7.8	-19.0	-27.2	-28.5
	Mar., 1950	-26.4	-24.8	-12.0	-12.0	-28.4	-8.9
Springfield		\$ 214	21,142 ^c	\$10,895		\$ 92	\$ 201
Percentage Change from	Feb., 1951	+30.0	-5.6	-7.4	-20.5	-23.8	-14.0
	Mar., 1950	-40.0	-13.2	-17.9	-31.2	-19.4	-0.2
SOUTHERN ILLINOIS							
East St. Louis		\$ 120	11,780	\$7,440		\$ 139	\$ 52
Percentage Change from	Feb., 1951	+270.4	+12.4	-4.1	n.a.	-30.6	-15.7
	Mar., 1950	-66.8	+33.0	-12.4		-30.2	-13.0
Alton		\$ 119	10,806	\$3,894		\$ 32	\$ 24
Percentage Change from	Feb., 1951	+142.0	-7.7	-4.2	n.a.	-32.1	-6.4
	Mar., 1950	-55.4	+9.1	-10.6		-23.9	-10.3
Bellefonte		\$ 82	4,592	\$3,401		n.a.	\$ 35
Percentage Change from	Feb., 1951	+720.0	-3.4	-6.2	n.a.		-4.0
	Mar., 1950	-52.6	+15.7	+0.2			+20.4

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for February, 1951, the most recent available. Comparisons relate to January, 1951. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

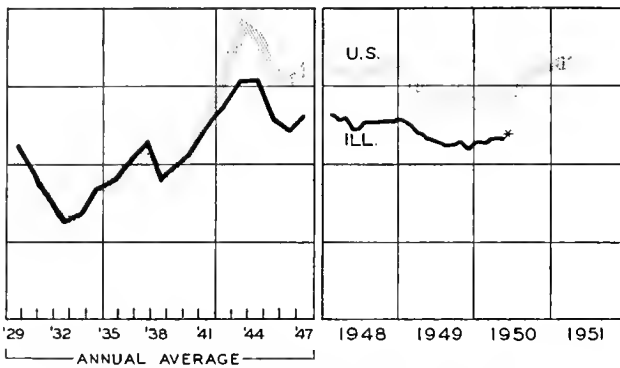
^c Includes immediately surrounding territory.

n.a. Not available.

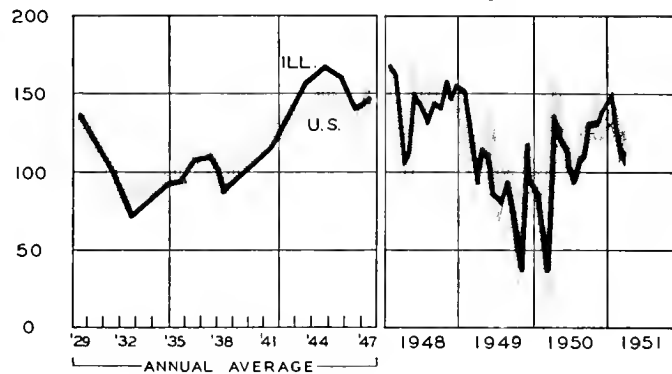
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

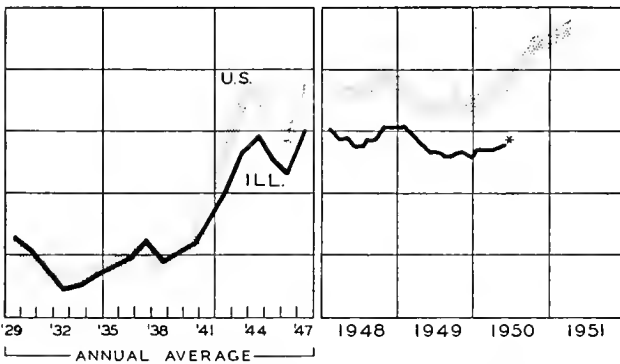
EMPLOYMENT-MANUFACTURING



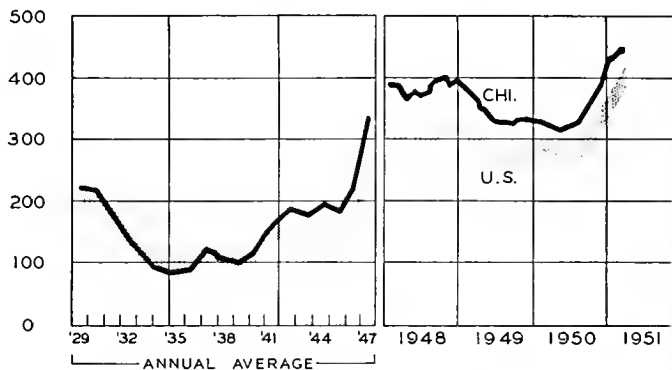
COAL PRODUCTION



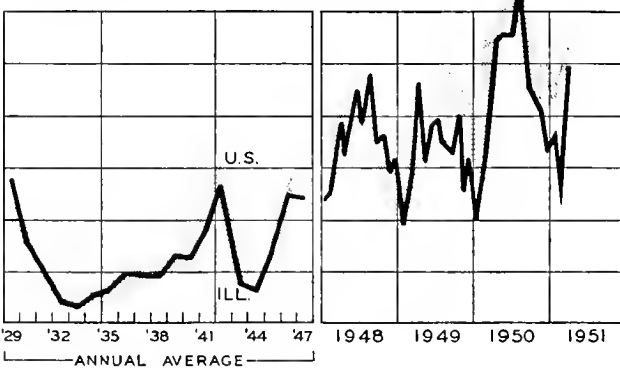
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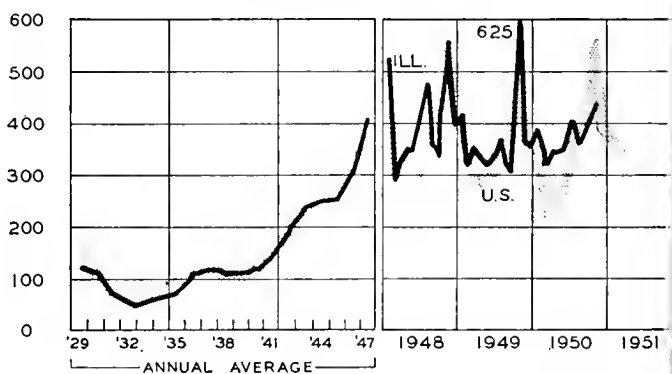
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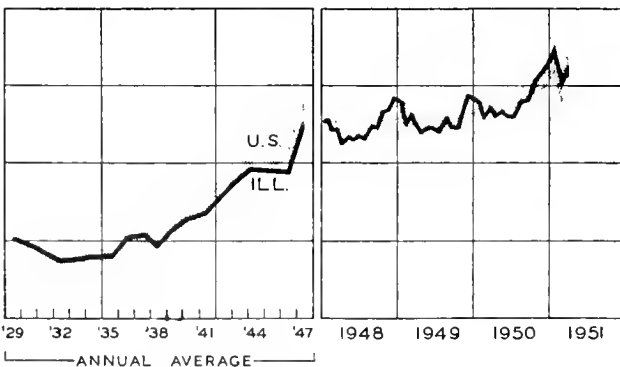
CONSTRUCTION CONTRACTS AWARDED



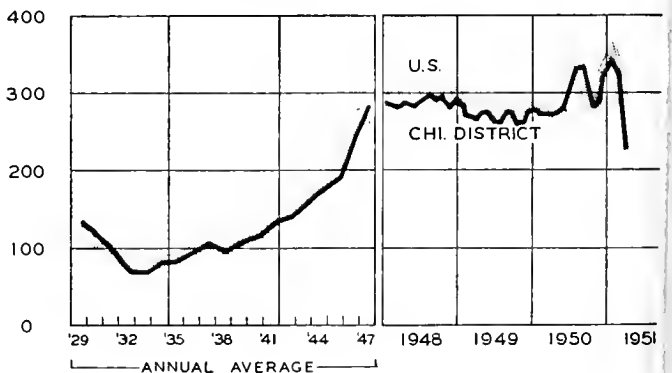
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



* Illinois figures being revised

ILLINOIS BUSINESS REVIEW
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HIGHLIGHTS OF BUSINESS IN MAY

With the exception of seasonal movements, business activity continued at a fairly even level in May. Apparently defense work is expanding at a pace sufficiently rapid to take up the slack caused by reduced operations of non-defense industries. The Federal Reserve index of industrial production showed little change from the April level of 222 percent of the 1935-39 average, although the production of many consumer durable goods turned down. Nevertheless, primary metals production continued at near-record highs; the steel industry during May operated at 103.5 percent of theoretical capacity, producing an average of 2.1 million tons of ingots and castings weekly. Electric power output, a key indicator of industrial activity, ran about 13 percent above last year's all-time high for the month.

Unemployment at Postwar Low

The number of unemployed in May declined about 6 percent from April, equalling the postwar low of 1.6 million, set during 1947 and 1948 and right after the end of World War II in September and October, 1945. However, since the size of the labor force at that time, 54.5 million, was considerably below the present-day figure, a substantial improvement in the employment picture has taken place.

Civilian employment jumped 1.1 million to a high for the year of 61.2 million. Most of the increase was due to the seasonal expansion in agricultural employment, which provided 0.8 million of the new jobs. Some of the increase in nonfarm employment, also, was due to seasonal factors as construction operations began to expand. Still other openings in retail trade became available with the partial recovery from the post-Easter slump.

Prices Remain Level

The comprehensive BLS index of wholesale prices showed little change during May, registering a slight decrease of 0.5 percent during the month. Grain prices, which were down 2.1 percent in the month, were largely responsible for the decline. The highly sensitive index of 28 basic commodity prices dropped 3 percent during May, which may point to further declines in other price indexes. Consumers' prices, which generally lag wholesale prices, also seem to have stabilized for the time being. In the month ended April 15, the consumers' price index rose a bare 0.1 percent to 184.6 percent of the 1935-39 average.

Farm prices were down a little more than 1 percent in the month ended May 15. Compared with last May, however, they were up 27 percent. The parity ratio declined 1 point in the month to 108, as prices paid by farmers for goods and services declined only fractionally from the April level.

Construction Pattern Changes

For the first time since monthly compilation of the data began, outlays for new home building declined from April to May. Although the contraseasonal decline is small, about 3 percent, it portends a greatly reduced level of residential building activity during the peak construction period for the year. The May home building figure is 18 percent below last May, and even greater year-to-year declines are expected in later months in view of the reduced number of housing starts in the early spring and the record home building activity last year.

Despite the decline in residential building, total outlay for new construction rose 6 percent over the April figure, as a result of substantial increases in industrial and military construction and in most phases of nonresidential public construction. An additional consequence of these increases was that the over-all figure exceeded construction activity in May, 1950, by 11 percent.

Department Store Sales Remain High

Department stores seem to be recovering from their post-Easter slump. In May, the Federal Reserve seasonally-adjusted index of department store sales was up one point from April to 303 (1935-39 = 100); this was 4.4 percent above the volume of sales in May of last year. Increases in sales over April were reported in all Federal Reserve districts with the exception of St. Louis and Minneapolis. In view of the price increases since last year, however, the physical volume of sales is probably below the level of last year.

It is still problematical what effect the Supreme Court's action in declaring the fair trade law unconstitutional will have on sales. In New York City the first full week of a wave of price cuts on previously fair-traded items led to an over-all 25 percent increase in department store sales over the corresponding week of 1950. The jump in sales was not restricted to the fair-traded items, with the result that the increased sales volume more than made up for the price cuts. At the month's end, price cutting on fair-traded items had begun to appear in other cities.

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Pause on the Way Up

Business sentiment has shifted drastically in recent months. Six months ago it was all shortages, eagerness for goods, and inflation of prices. Now, there are surpluses, buyers are holding back, and price cutting is headline news. Congress is debating the extension of controls. There is even talk of the "terrific" letdown that will occur if military programs are cut back.

A remarkable feature of these psychological flip-flops is that they have taken place in a situation that remained basically unchanged during the entire period. The international situation has continued tense, with prospects for war or peace in about the same balance. The outlook for business is still moderately upward, dominated by the projected rise in the military program. Instability arises mainly from the alternation of excitement and depression.

What's Behind the Letdown?

The present mild letdown is no more than a reaction from earlier excesses. It is no better as an indicator of what is to be expected than was the severe inflationary pressure experienced some months back.

At the core of the sharp upsurge was anticipatory buying by both consumers and business. Now that we are relaxing, activity is less than it would be if we had not overbought at that time. Consumers who felt that there were things they had to have acted in all possible haste. Now, those needs are satisfied. On the other hand, those who felt they could afford to wait can still afford to wait. Theirs is the sensible attitude that just because there are price ceilings, there is no need to pay ceiling prices. But this, too, is a passing phase.

As important in the earlier upsurge as the efforts of consumers to anticipate future needs were those of business to accumulate larger inventories. In the fourth quarter, accumulation reached an annual rate of \$11 billion—anticipating, in effect, a half year's advance in the war program. In the first quarter, the rate of accumulation had dropped back to \$8 billion; and since March orders have been cut back to prevent the still higher rates of accumulation that temporarily accompanied the decline in sales.

Further reduction in the rate of accumulation appears to be in order, but there is no reason for over-all liquidation to develop. Just as there never was a need to pursue inventory accumulation with such abandon, there

is no need now to liquidate the inventories accumulated. The possibility of liquidation is not ruled out; but as long as the conditions responsible for the accumulation persist, it appears improbable.

At present, inventories are about in line with demand, as measured by long-term relationships between inventories and sales. In the face of a possible emergency, these long-term relationships seem to provide a conservative measure of inventory holdings. Some excess over the normal level would seem to be justified as a kind of insurance against future dislocations and shortages. Moreover, aside from the temporary setback, the trend of demand is still upward, so that future demand will again tend to make inventories look relatively low.

Thus, some further accumulation appears likely, but only at so greatly a reduced rate that no large excess will be accumulated. In the lines where higher production is possible, price risks are great, and business will not attempt to carry large surpluses. In other lines, particularly those where restricted material supplies make shortages inevitable, business will be unable to carry as large inventories as it would like. In other words, there will probably be a tapering off in inventory accumulation, and the reduction will partially offset the stimulating effects of increased military procurement.

Any Setback Only Temporary

Also working to restrict incomes and demand are the controls designed to curtail nonessential civilian output. These are just now beginning to be effective. Each cutback in consumer durables or residential construction correspondingly offsets higher military spending. In effect, the war program has not been superimposed on the business boom, but has partly displaced booming civilian production on our industrial schedules.

The effect of these cutbacks, together with the reduction in inventory accumulation, has been to bring the advance in industrial production to a halt. Recently, this hesitation has been aggravated by "peace scares." But policies of neither East nor West have changed; and until there is a more definite change, this kind of "peace" can hardly involve a reduction in military programs.

It is true that the pace of war spending grows with crises on the war front or other adverse developments. Although further incidents cannot be predicted at this time, their occurrence cannot be entirely discounted, even if both sides pursue "peace offensives." If no new incidents occur, there may be some reduction in the peak rate attained, but then it is likely that the same volume of war production will be realized over a longer period of time. In that case, the situation will be somewhat more stable, but with the upward movement continuing and the boom more definitely prolonged.

We are, in short, in a period where business activity has temporarily levelled off, and may even fall back briefly. It is a situation in many ways similar to that which occurred in the spring of 1949, and in this case any decline is likely to be just as temporary as it was then.

Whatever the course of events in the next few months, the upward movement seems likely to be resumed by the end of the year. Profits in the last quarter will probably be down from the year before, mainly because the stabilization of prices will eliminate the large element of inventory revaluation. Otherwise, they will probably be the highest ever; and even though tax rates are increased, the funds actually available for dividend distribution or capital purposes may well be higher. The outlook, in brief, is favorable — for business and for the securities markets.

VLB

SCALES AND BALANCES

Although the manufacture of scales and balances is a relatively small industry, it is one of the earliest recorded in history. Primitive beam-type scales with pans suspended from either end were invented as early as 5,000 B.C., and are still being used in China and India.

The ancient systems of weights utilizing the pull of gravity were so sound and practical that they have remained the basic principles used in modern scale design. Modern superiority in scale manufacturing is not so much the result of ingenuity in design as of the use of improved metal alloys and present-day tools and machinery.

Principles of scale manufacturing may have varied only slightly through the ages, but their applications have been vastly multiplied. Today the scales and balances industry manufactures a great variety of weighing devices. Major types of large scales include coin-operated person weighers, industrial, railway track, and motor truck scales. Among the smaller types are household and postal scales, and laboratory and precision balances.

Scale manufacturing has been greatly expanded during the past ten years. The value of products shipped by the industry was at an all-time high in 1947, almost twice what it was at the previous high in 1929. Factory sales jumped from \$14 million in 1939 to \$54 million in 1947. In the same period, the number of firms in the industry rose from 56 to 75 and the work force increased by 75 percent to 6,500 employees.

At some time or other nearly everything bought and sold is weighed. There are many kinds of scales designed for special purposes such as weighing mailbags, laundry, tires, hardware, seed, and poultry. Special airport counter scales weigh luggage, and hopper-type automatic weighers are used in packaging and batching operations.

Industrial balances play an important part in determining manufacturing costs and maintaining quality standards of production. This type of scales made up almost half of the total value of scale production in 1947. One-fourth of total scales value came from retail scales, and household and person-weighing scales together accounted for one-sixth.

The Industry in Illinois

The 1947 Census of Manufactures indicates that Illinois is an important state in the manufacture of scales and balances, providing 20 percent of the product value and almost one-fifth of the total number of firms and employees in the industry. Although the Census does not give a complete breakdown by states for scale manufacturing in order not to reveal data for a few large firms, Illinois probably ranks third in value of products.

The 13 Illinois firms making scales and balances in 1947 employed more than 1,000 workers, and their combined value of product totaled \$11 million. The majority of the plants are located in the Chicago area, and most of them specialize in small products such as retail store, household, and postal scales.

Two of the larger scale manufacturers in Chicago are the Borg-Ericksen Corporation, the nation's largest manu-

facturer of bathroom scales, and the Triner Scale and Manufacturing Company, which is an outstanding manufacturer of mail and parcel post scales for post office and general business use.

Heavy Industrial Scales

Only a few Illinois firms manufacture scales for industrial use and only one, the Streeter-Amet Company, makes the heavy weighing equipment used by the steel industry and the railroads. Located in Chicago, Streeter-Amet is the leading company in the industry manufacturing the scales used to weigh moving freight, ore, and coal cars, and other moving carriers like the charging cars for open-hearth furnaces.

In motion-weighing, invented by the founders of Streeter-Amet, a track lever located on one rail is depressed by the front wheel of the car to be weighed as it leaves the scale platform. The weight is automatically printed on a tape, speeding the process and assuring accurate, permanent records. As the rear wheels of the car pass over the track, they reset the printer and the weigher is ready for the next car. An average of one car every five seconds can be weighed in motion, greatly reducing weighing time and making the rolling stock involved quickly available for reloading.

In addition to producing motion-weighing equipment used all over the world, Streeter-Amet is also dominant in the manufacture of weight recorders. The company makes both the dials and the tape and ticket-printing mechanisms which are connected to the weight-receiving elements of the scale proper.

Laboratory Balances

In contrast to the huge industrial devices that can accurately weigh a 600-ton locomotive, the scale industry also manufactures balances capable of registering the mark of a lead pencil. Although only 4 percent of the total value of scale production in 1947 came from the sale of analytical balances, no scientific laboratory could operate without them. This type of scale manufacturing is represented in Illinois by the Central Scientific Company in Chicago, maker of several types of analytical balances as well as of the weights used in their operation.

Highly specialized balances are now being produced that can detect the weight of a human hair on a balance pan already containing a 50-pound block of lead. Other tiny weighing instruments, used to weigh oxide films of rust, will register 10 billionths of an ounce. Unlike most analytical balances, which are enclosed in glass cases, these supersensitive scales must be vacuum-sealed in a glass tube and can be read only by means of a microscope.

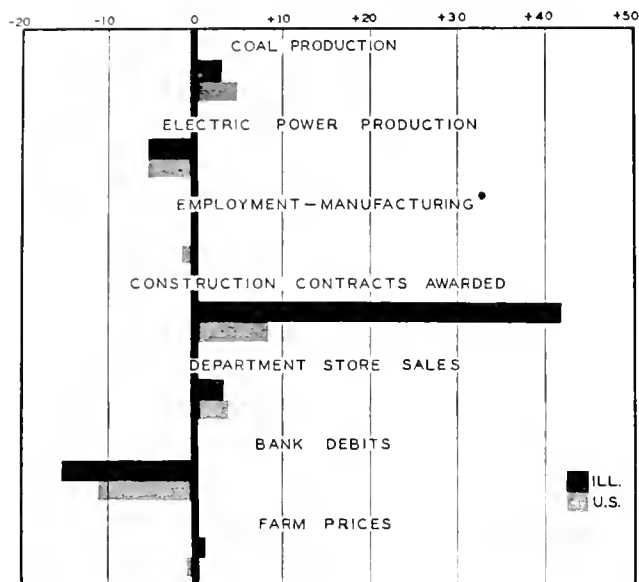
More and more scales are expected to be designed for use with various automatic devices. By weighing until a predetermined point is reached, they can be made to set off any electronically controlled series of operations. Manufacturers of scales and balances anticipate far-reaching future developments both in the field of electronic weighing and in scale-operated control functions.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes March, 1951, to April, 1951



* Figure for Illinois not available.

ILLINOIS BUSINESS INDEXES

Item	April 1951 (1935-39 = 100)	Percentage Change from	
		March 1951	April 1950
Electric power ¹	301.0	- 5.3	+13.0
Coal production ²	124.8	+ 2.9	+ 2.3
Employment—manufacturing ³	n.a.	.....	.....
Payrolls—manufacturing ³	n.a.	.....	.....
Dept. store sales in Chicago ⁴	234.2 ^a	+ 3.3	+ 3.6
Consumer prices in Chicago ⁵	189.1 ^b	0.0	+ 9.4
Construction contracts awarded ⁶	702.2	+41.8	+29.6
Bank debits ⁷	339.6	-15.2	+21.3
Farm prices ⁸	282.6	+ 1.0	+30.2
Life insurance sales (ordinary) ⁹	220.5	+ 0.4	+19.2
Petroleum production ¹⁰	211.5	- 6.4	- 5.4

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Repts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.
^a Seasonally adjusted. ^b New series. Old series index for April was 190.0. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	April 1951	Percentage Change from	
		March 1951	April 1950
Personal income ¹	Annual rate in billion \$ 244.4 ^a	+ 0.7	+14.3
Manufacturing ¹	268.8 ^a	- 4.3	+31.0
Sales.....	37.7 ^{a, b}	+ 3.6	+29.1
Inventories.....	10.9	+ 7.1	+ 3.3
New construction activity ¹	9.3	+ 6.4	+29.5
Private residential.....	8.0	+21.8	+31.4
Private nonresidential.....	16.5	+ 7.1	+70.2
Total public.....	12.3	- 6.8	+75.6
Foreign trade ¹	4.2	+91.2	+56.0
Merchandise exports.....	19.1 ^b	- 1.3	+14.9
Merchandise imports.....	12.9 ^b	- 0.5	+14.0
Excess of exports.....	19.1 ^b	- 0.4	+42.5
Consumer credit outstanding ²	22.8	- 9.5	+26.7
Total credit.....	Index (1935-39 = 100)		
Installment credit.....	222 ^a	+ 0.0	+16.8
Business loans ²	275 ^a	- 0.7	+23.9
Cash farm income ³	199 ^a	- 0.0	+10.6
Industrial production ²	164 ^a	+ 3.8	+17.1
Combined index.....	168	- 0.2	+12.5
Durable manufactures.....	109	- 0.5	+ 2.8
Nondurable manufactures.....	263	+ 0.3	+ 9.8
Minerals.....	286	- 0.2	+12.8
Manufacturing employment ⁴	582	+ 8.5	+ 1.8
Production workers.....	302 ^a	+ 3.8	+ 3.4
Factory worker earnings ⁴	185 ^c	+ 0.1	+ 9.6
Average hours worked.....	228	- 0.3	+20.0
Average hourly earnings.....	267	- 0.6	+27.2
Average weekly earnings.....	235	- 0.5	+19.6
Construction contracts awarded ⁵	212	- 0.2	+17.6
Department store sales ²	289	- 0.6	+28.2
Consumers' price index ⁴	226	+ 1.1	+13.2
Wholesale prices ⁴	109 ^d	- 1.8	+13.5
All commodities.....			
Farm products.....			
Foods.....			
Other.....			
Farm prices ³			
Received by farmers.....			
Paid by farmers.....			
Parity ratio.....			

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b As of end of month. ^c New series 184.6; old series 184.5. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1951					1950
	May 26	May 19	May 12	May 5	April 28	May 27
Production:						
Bituminous coal (daily avg.).....thous. of short tons	1,626	1,609	1,603	1,618	1,737	1,681
Electric power by utilities.....mil. of kw-hr.	6,653	6,559	6,567	6,560	6,674	5,894
Motor vehicles (Wards).....number in thous.	152.8	146.3	148.4	144.8	153.6	179.1
Petroleum (daily avg.).....thous. bbl.	6,081	6,094	6,078	6,090	6,069	5,041
Steel.....1935-39 = 100	232.0	232.7	232.2	232.9	231.3	217.4
Freight carloadings.....thous. of cars	812	809	808	803	825	781
Department store sales.....1935-39 = 100	290	285	318	326	293	282
Commodity prices, wholesale:						
All commodities.....1926 = 100	182.4	182.2	182.8	183.4	183.6	156.1
Other than farm products and foods.....1926 = 100	171.1	171.2	171.4	171.6	171.7	147.6
28 commodities.....August, 1939 = 100	363.1	367.1	369.5	370.4	372.9	263.5
Finance:						
Business loans.....mil. of dol.	19,129	19,233	19,164	19,186	19,127	13,359
Failures, industrial and commercial.....number	191	171	181	163	162	214

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production About Level

Preliminary estimates by the Federal Reserve Board indicate only a slight rise in the level of industrial production during May, with the index up to 223 percent of the 1935-39 base average.

Peak-level steel production was maintained during May, with the expected cutback caused by maintenance needs yet to materialize. An all-time high output of 2,079,000 net tons of ingots and castings, 104 percent of rated capacity, was reached during the week ended May 5; for the month, weekly output averaged 103.6 percent of rated capacity.

Automotive production, which averaged 170,000 vehicles two months ago and more than 150,000 cars and trucks during April, sagged a little more to 147,000 units weekly for most of May. Output is also moving away from automobiles toward trucks; the number of trucks assembled during the month, 138,570, reached the highest level on record.

Even with these declines in automobile output, dealers' stocks of cars are apparently adequate. In fact, reports of lagging sales have been fairly common in various parts of the country. Hudson closed down for two weeks to bring inventories more in line with demand. Manufacturers and dealers are placing much of the blame on Regulation W, which requires a down payment of one-third and 15 months to pay the remainder.

Upturn in Employment

Employment rose by more than 1.1 million workers in May, largely because of the seasonal expansion in farm work. With 61,193,000 workers on the job, employment reached the highest point since last November. Nonagricultural employment rose more than 300,000, with defense expansions more than offsetting cutbacks in nondefense work. A further decrease occurred in unemployment, which dropped to the lowest level since October, 1945.

Bureau of Census data for May, in thousands of workers, are as follows:

	May 1951	April 1951	May 1950
Civilian labor force.....	62,803	61,789	62,788
Employment.....	61,193	60,044	59,731
Agricultural.....	7,440	6,645	8,062
Nonagricultural.....	53,753	53,400	51,669
Unemployment.....	1,609	1,744	3,057

Price Declines General

As a rule prices were off somewhat during May. Many of the components of the index of 28 basic commodities declined substantially. The over-all index was down by 3 percent, with import and farm product prices each declining more than 5 percent. The comprehensive BLS index of wholesale prices was better supported, dropping only 0.6 percent from May 1 to May 29.

Farm prices received fell for the third month. Price decreases for meat animals, cotton, and wheat were important factors in a four-point drop from 309 to 305 (1910-14 = 100). Prices paid also declined, but only from 283 to 282, so that the parity ratio for the month ended May 15 was 108, a further drop of 1 index point.

The consumers' price index was practically unchanged at 184.6 of the 1935-39 average. Minor declines in prices for the food and fuel-electricity-refrigeration groups more than offset slight advances in the other groups.

Movements of farm, wholesale, and consumers' prices since the beginning of 1948 are illustrated in the accom-

panying chart. This chart is primarily designed to portray recent changes, as absolute levels of the indexes are affected by the base period, 1935 to 1939, when farm prices were relatively depressed. Prices of primary commodities such as farm products also fluctuate more widely than do prices of manufactured and semimanufactured goods, and are therefore relatively high in prosperity periods.

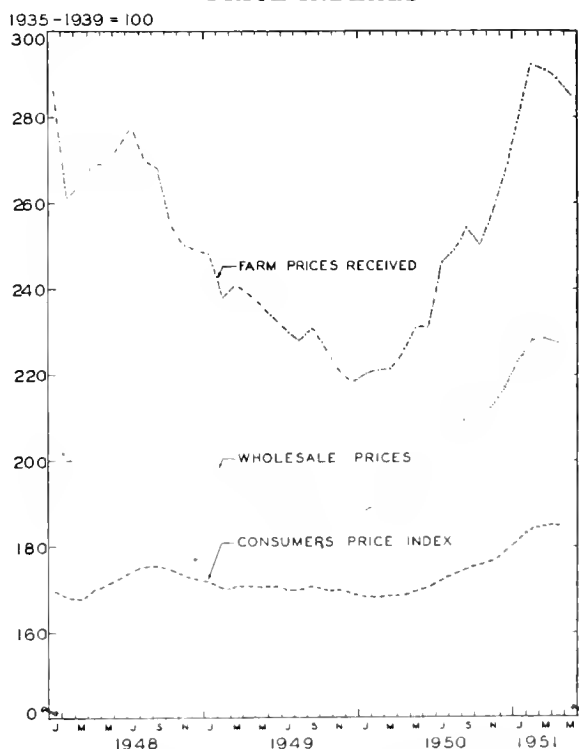
During the period covered, prices fell substantially from their 1948 highs, as the economy became adjusted to a peacetime level of activity, and began to rise at the beginning of 1950, as a new postwar expansion got under way. The rise was, of course, given a sharp boost by the outbreak of war in Korea. In recent months all three price series have leveled off or declined, as the initial strain of the rearmament boom passed.

Sales Slower

Both manufacturers' and retailers' sales dropped during April from the level of the previous month. Seasonally adjusted retail sales declined 3 percent, to \$12.0 billion. About three-fourths of the value decline occurred in durable goods, and was caused largely by falling sales of automobiles. Small decreases were common in nondurable groups; apparel and general merchandise sales were the exceptions, with small increases brought about by promotion campaigns. Although dollar amounts were higher, physical volume of sales was somewhat less than in April, 1950, since prices had increased over the year.

Manufacturers' sales of \$22.4 billion during April were down \$1 billion from March after seasonal adjustment. Book value of inventories continued to increase and reached \$37.7 billion, substantially above the end-

PRICE INDEXES



Sources: U. S. Bureaus of Labor Statistics and Agricultural Economics.

of-March level of \$36.4 billion. New orders were off more than usual for the season, dropping 17 percent to \$23.8 billion. Decreases in durable-goods orders accounted for most of the decline. Nevertheless, new orders for durables exceeded sales, so that backlogs rose \$1.7 billion to \$46 billion; in contrast, unfilled orders for nondurables fell \$300 million to \$7.3 billion.

National Product Continues Rise

Gross national product showed another sharp increase during the first quarter of 1950, rising more than 4 percent to an annual rate of \$314 billion. Price increases again accounted for a sizable portion of the gain.

GROSS NATIONAL PRODUCT OR EXPENDITURE

(seasonally adjusted, billions of dollars at annual rates)

	1st Qtr. 1951	4th Qtr. 1950	1st Qtr. 1950
Gross national product.....	313.9	300.3	263.3
Personal consumption.....	204.8	195.8	182.6
Durable goods.....	31.6	30.0	26.4
Nondurable goods.....	110.7	104.3	97.9
Services.....	62.6	61.5	58.3
Domestic investment.....	59.0	60.2	41.8
New construction.....	23.5	22.9	20.0
Producers' durable equipment	27.6	26.1	19.5
Changes in business			
inventories.....	7.9	11.2	2.3
Nonfarm inventories only..	7.6	11.0	2.7
Foreign investment.....	-2.6	-3.4	-1.7
Government purchases.....	52.6	47.6	40.5

INCOME AND SAVINGS

National income.....	n.a.	256.2	216.9
Personal income.....	241.6	234.9	216.4
Disposable personal income	214.9	211.6	197.4
Personal saving.....	10.1	15.8	14.8

About two-thirds of the rise appeared in personal consumption expenditures, which were up \$9 billion to \$205 billion. It appears that the buying surge of January and February was as highly concentrated in nondurables as in durables; in the first Korea-inspired buying spree last July and August, the larger portion of the increase in consumption spending was for durable goods.

Besides the advance in consumer buying, the other large increase in GNP occurred in government purchases, which rose \$5 billion to \$52.6 billion. It is to be expected that government buying will take a growing proportion of GNP as deliveries of matériel are stepped up.

Personal income continued to rise, with widespread increases in wage and salary payments. Despite the increases, however, the sharp rise in consumption spending cut the level of personal saving by one-third.

Fuel and Power Pinch Possible

A pinch in fuel and power appears likely next winter as the mobilization program nears its expected peak demand on the nation's economy. In the main, the fuel squeeze will be as much one of transportation as of production, and could be alleviated substantially by eliminating the summer slump in fuel shipments. To this end the Secretary of the Interior has suggested that consumers fill their oil tanks and coal bins now to take a certain amount of pressure off the transport system in the fall.

In the field of electric-power production, some difficulty may be caused by the inability of the power companies to add capacity rapidly enough to keep up with growing demand. The industry's present large expansion programs are being held up in some places by material shortages. It is expected that defense requirements will

tax generating capacity to the utmost next winter, with actual shortages possible in some areas.

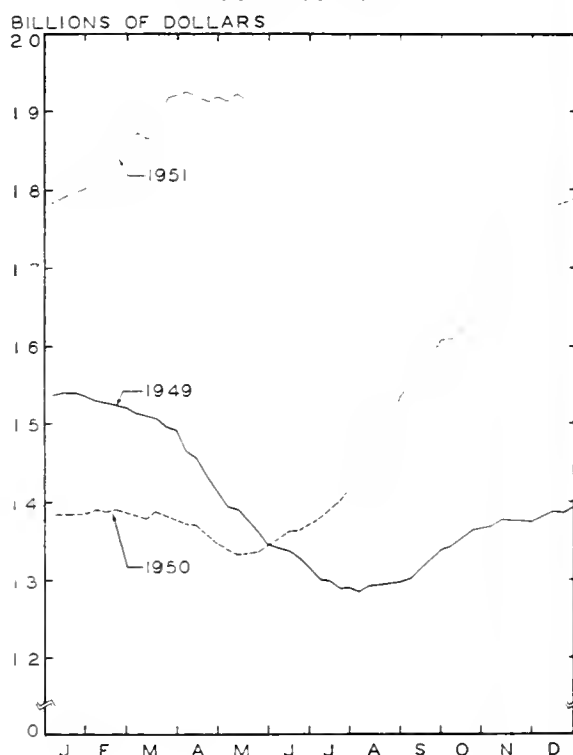
Fair Trade Laws in Question

A tempest was raised when the Supreme Court decided that the non-signer clause of the Louisiana resale price maintenance law was invalid. The provision in question, which is included in the fair trade laws of a number of states, bound non-signers of price-fixing contracts, as well as signers, to maintain minimum prices on various nationally-traded brands. The Court in its decision termed such arrangements "coercion" and ruled them illegal. Originally the various laws were passed to protect brand-name goods from price-cutting competition, and to protect small merchants from the use of "loss leaders" by bigger competitors who could afford the loss because of their profits on other items. The state laws have always been questioned under earlier Federal antitrust laws, but this is the first time a decision has been made. The most immediate result of the decision was the beginning of a price war in New York City which soon spread to a few other large cities.

Business Loans Level

Outstanding bank loans to commercial, industrial, and agricultural enterprises continued to range between \$19.0 billion and \$19.3 billion during May. It may be seen from the accompanying chart that business loans climbed steadily and sharply from May, 1950, to March of this year, and are now at an all-time high considerably above the preceding two years. While loans remained level for a period of ten weeks, totaling a little more than \$19.0 billion on May 30, no sign has yet appeared of a spring decline such as occurred in 1949 and 1950. The steadiness of business loans, which are closely connected with inventory levels, probably reflects the caution now being exercised to forestall accumulation of excessive stocks.

BUSINESS LOANS



Source: Federal Reserve Board.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Sinclair Aid to Inventors

Sinclair Research Laboratories at Harvey plan to provide technical facilities and skilled personnel for any American with an idea for a better petroleum product or application. The Laboratories, a wholly-owned subsidiary of the Sinclair Oil Company, will test the most promising ideas selected by its directors and guide them from the scratch-pad stage through the final pilot-plant testing. In return for its investment, Sinclair will get use of the invention free of royalties, but the inventor is at liberty to sell his idea in other quarters. Every idea submitted must first be protected by a patent or patent application. The program is expected to uncover new and profitable ideas in the realm of petroleum products that might otherwise go unused.

New Types of Lighting

A lighting system which delivers daylight evenly throughout a room has been developed by the Engineering Research Institute of the University of Michigan. Instead of windows, hollow glass blocks change the course of light entering a room by directing it upward toward the ceiling, which acts as a huge reflector to diffuse the light evenly over all work surfaces. With conventional windows, daylight is directed downward, and the room area near the window generally receives too much light and the farthest corners not enough. Glass-block lighting is expected to provide better working conditions for occupants of schoolrooms, industrial plants, and office buildings. Although their original installation is more expensive than ordinary double-glazed sash windows, the blocks are less expensive to maintain and have a high insulating factor that allows considerable saving in fuel and air-conditioning costs.

The Sylvania Electric Company has been experimenting with a lamp which gives off a new kind of "cold" light, similar to outdoor light, and requires no vacuum bulb or tube. Operating on a principle called electroluminescence, the lamp throws out light from an area source, rather than a point or line, which limits its tendency to decrease in intensity and cast shadows. The lamp itself looks like a sandwich, with two plates of glass as the bread. Between the plates is luminescent powder which has the property of glowing momentarily when subjected to electrical force. With a 60-cycle alternating current, the glow is continuous. Commercial production of the lamp is said to be several years away.

Electric Device Eliminates Type

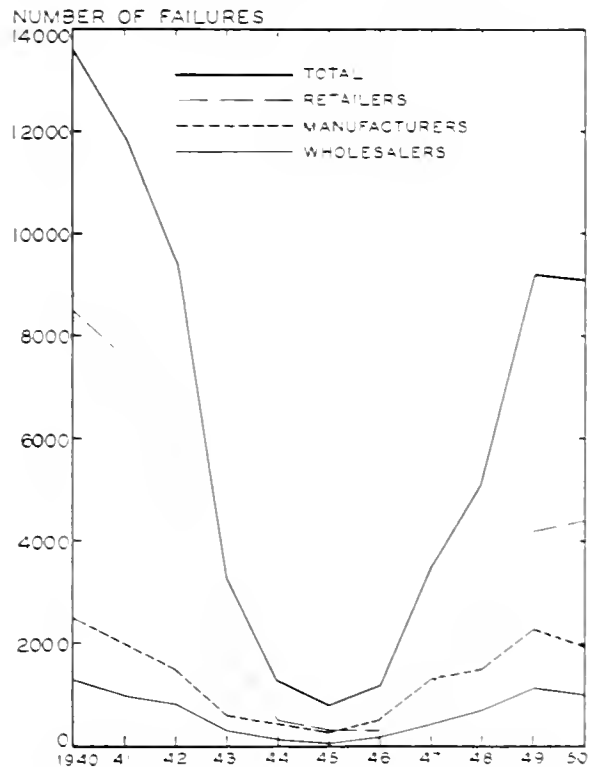
The invention of an electric typewriter device which would allow faster, less costly printing by eliminating all type, linotype machines, and other equipment currently involved in the casting of type, has been announced by the Graphic Arts Research Foundation (Cambridge, Mass.). The typewriter, which is attached to an apparatus approximately the size of two family refrigerators, types the same kinds and sizes of letters as an ordinary machine. Electric impulses change these letters into any size or style of newspaper type preferred. The type comes out complete on photographic film, ready for engraving on a newspaper printing plate.

Business Failures

Dun and Bradstreet, Inc., has published a booklet entitled *Survival Qualities of American Business*. It states that American enterprises are showing greater resistance to the ills of commercial operations. There are 130 percent more concerns in business today than at the turn of the century, but the current failure rate is only 3.4 per 1,000 concerns in operation, compared with an average of 7.8 failures per 1,000 concerns for the entire period since 1900. Statistics show that a new business meets its biggest obstacles in its first five years. Two out of every three concerns that failed in 1950 had started in business after 1945.

As shown by the chart, the low point in total failures

BUSINESS FAILURES, 1940-1950



Source: Dun and Bradstreet.

between 1940 and 1950 came in 1945. By then wartime conditions had weeded out the weak enterprises, and only after a period of peacetime operations made possible the creation of new businesses did the failure rate go up. The trend of total failures is shown to depend mainly on the rise and fall of retail failures. More than 60 percent of all failures in 1940 were retail businesses. This ratio went down to 35 percent in 1945, but by 1950 was up to 48 percent. Failures of manufacturers, on the other hand, rose from 18 percent of the total in 1940 to 35 percent in 1945, and then decreased to 25 percent in 1950.

Federal Purchasing Directory

A government pamphlet has been released giving a detailed listing of all the principal procurement agencies

(Continued on page 9)

BUDGETS FOR TAXPAYERS

GEORGE W. MITCHELL

Vice President, Federal Reserve Bank of Chicago

Probably few taxpayers have ever seen a budget document, either that of the Federal government or of a state, a county, a city, or a school district. Many governments do not even have formal budgets any more than individuals do. Just like such individuals, these governments gauge their spending by what they spent in the previous year or by the cash they have in the till or can borrow from the bank. Even formal government budgets are likely to be extremely limited in approach and to include little in the way of long-range planning, and of a realistic appraisal of resources and responsibilities.

Probably the few taxpayers who have seen a budget document have been little the wiser for it. For although a budget need not be formidable, it is a customary and deliberate policy to make it appear so. Citizens can quickly be discouraged from trying to understand budgets if the relevant facts are buried in detail and appropriation accounting intricacies.

Budget Objectives and Weaknesses

Briefly, all a budget does is set forth a government's current resources, its fixed short- and long-term obligations, an estimate of expected income from taxes and other sources of revenue, and the anticipated cost of providing services. These simple facts can be recapitulated into a brief paragraph which may have little or much meaning, depending upon the coverage of the budget. But even these simple facts can be made relatively meaningless if they fail to portray a total picture of the government's operation.

Simple summary facts will be the only usable information about the budget if the supporting detail is poorly presented. There may be too much detail, or such detail as is provided may be completely sterile or largely irrelevant. In any event, a citizen won't learn much about his government if he only has a summary fact or two with respect to the dollar total of resources and anticipated income and expenditure.

Omitting Important Programs

From the viewpoint of citizens, what are some of the outstanding defects of budget documents? Incompleteness is one. To make expenditures appear as low as possible, budget makers have become adept at rationalizing non-budgetary procedures for many types of expenditures. For example, it is common in state budgets to omit any reference to Federal funds, even though this source of revenue will finance as much as 20 percent of total state expenditure. When such funds are excluded from the state budget document, it is impractical as a matter of presentation fully to describe the character of expenditure programs in welfare, in highway construction, or in many other fields where Federal aid supplements state and local funds. The best evidence of this fact can be found in the budgets of those states that omit any reference to Federal aids; they also omit reference to the expenditure of the aids. Such omissions limit the most basic usefulness of the budget document.

So-called earmarked funds are also often omitted from state budgets. In the United States, earmarking of highway funds, fishing and game licenses, and other minor

funds is common. The budgeting operation in which revenue sources are earmarked for a particular purpose of expenditure does not encompass a determination of the total amount of expenditure, as that is presumably regulated by the income received; the budget, however, still can indicate detailed activities and specific functions that will be carried on.

These and similar omissions handicap the taxpayer in understanding what his government does if he looks merely to budgetary totals. In the state of Illinois, for example, if Federal funds and earmarked revenues were excluded from consideration, only about half of the present budgetary totals would be shown.

Splitting Programs by Budget Periods

A second defect in budget documents is their failure to recognize and appraise the longer-run aspects of public expenditure. Very few programs of expenditure are susceptible to sharp contraction or expansion, yet the budget document implicitly assumes a standing start at the beginning of each budgetary period and a finale at the end of that period. The carry-over effects are usually totally ignored. For example, an expansion of the capital plant might conceivably take place within a single budgetary period, but the effects on subsequent operation seldom are considered in the budget for the current period. They should be an integral element in the basic information needed to make an intelligent decision on the projected capital expenditure.

Again, extensions of education and welfare programs based upon known trends in caseloads may imply very important long-run budgetary effects that can be, and are usually, totally ignored in a current budget. Financial aspects of planning governmental operation have become far more than a matter of turning the tap off or on. The forces set in motion by previous public expenditures can be changed significantly only over a comparatively long period of time. This fact needs to be better recognized in the formal presentation of projected expenditure.

Deficiencies in Presentation

A third defect has to do with several factors that affect the mechanics of presentation—the way the budgetary material is organized, the manner in which it is summarized, the details that are included, the segregation of technical detail, and the significant non-budgetary facts about individual programs. Page after page of tabular material with incomplete heads, and without any descriptive text, and endless tables of object and personnel breakdown do little to enlighten citizens, or even legislators. The major decisions of policy are completely hidden behind and within such detail and cannot be brought to their proper perspective without a major effort.

If the budget document of the Federal government, for example, were set up so that each one hundred million dollars of expenditure took an equivalent number of pages, the resulting document would certainly be astoundingly different from the one in use today. Yet the size of the expenditure is a major determinant in fixing the attention that should be devoted to the consideration of the wisdom of the expenditure.

Need for Allocating Costs

Probably the most serious defect of budget documents is the fact that they do not tell much about the cost of specific activities and programs. At their very best, they are an extremely crude substitute for a cost accounting analysis, and at their very worst, they give no information as to the cost of a given type of governmental service. For some time efforts have been made to deal realistically with this issue. The Hoover Commission, in its recommendations for reorganization of the executive branch of the government, recognized this problem and urged the use of performance budgeting.

If sound public policy decisions are to be made, the dimensions of public needs must be known, i.e., how many aged to care for, how many students in institutions of higher education, and so on. A reckoning of the resources to meet these needs in units of manpower, materials, and plant is the next budgetary step, and finally the conversion of the physical units into dollars of government expenditure completes the presentation. The budget document will never fully show all elements of cost for every program, because governments do not use depreciation accounting. However, all direct costs and supplemental information with respect to indirect costs can be worked into budgetary presentations.

Improvement in Budgetary Practice

Probably the greatest progress toward defining objectives on programs and activities has occurred, or is taking place, in the fields of welfare and health. A good deal of first-rate budget analysis accompanies the determination of costs of the categorical programs of public assistance — old age pensions, aid to dependent children, blind assistance, and the like. Progress is also being made in budgeting for hospital care by analysis of costs of feeding, housing, and medical treatment.

A minimum of attention to cost analysis has occurred in the area of higher education, where activities and sub-functions are not subject to cost analysis and there is virtually no public information as to what the taxpayer's dollar will buy. It is quite evident that instructional costs vary markedly from institution to institution and for different classes of students in the same institution. The cost characteristics of higher education should be a part of public information not only to decide what proportion of the taxpayer's dollar ought to be devoted to education but also to determine some of the major areas of emphasis.

The current practice in most of the states is to refer to prior levels of expenditures and assume that little else is germane to the problem. The specification of different educational alternatives and their cost is largely ignored. The time has passed when public education can sell its services to the community on a basis of prestige and prior privileges.

In summary, a first-rate budget document would be a complete plan of receipts and expenditures; it would contain an analysis of programs and of significant functions therein; finally, it would present these data in proper perspective to the over-all sphere of activity. Such a budget is a real tool for the understanding and control of government. While present-day budgets fall short of these objectives, recent developments in budgetary practice, particularly in California, Connecticut, Illinois, and Oklahoma and in several of the municipalities, are encouraging.

Business Briefs

(Continued from page 7)

in the government other than the Department of Defense. This directory also contains a chart listing the major classes of supplies, equipment, and material which these agencies purchase in sizable quantities. Copies are available without charge from the Chicago and Milwaukee offices of the United States Department of Commerce.

Largest Plastic Molder Announced

The largest plastics molding machine in the world was recently completed by the Watson-Stillman Company of Roselle, N. J. The new machine has a capacity of 300 ounces in contrast to the 60-ounce injection molder which was the largest size in production in 1949. Similar machines are expected to make possible injection molding of large products such as complete one-piece refrigerator linings, washing machine tubs, television cabinets, bath-tubs, and appliance housings.

Advertising With Premiums

Bantam Books, Inc. (25 West 45th St., New York, N. Y.) recently published an informative digest on "How to Use Premiums in Your Business to Increase Your Sales and Profits." Prepared by the Premium Advertising Association of America, Inc., it gives the answers to 21 questions that businessmen most often ask about premiums.

Moisture Content

An all-purpose meter used to measure the moisture content of lumber, wood, plaster, and other materials of varying textures and consistencies has been announced by the Weston Electrical Instrument Corp., Newark, N. J. Called the Moisturonic, it can check the moisture content of materials heretofore not readily measured, since it can be used with any material capable of accommodating electrode probes.

New Aluminum Alloy

A new super-strength aluminum alloy has been developed by the Aluminum Corporation of America that may allow future warplanes to fly faster and farther than ever before. By permitting lighter airframe construction, it would allow the planes to carry an increased number of guns and bombs and more fuel for longer range. The new alloy, said to be 10 percent stronger than the previous highest strength aluminum alloy, is now available only to plane builders for experimental and controlled production.

Surface-active Wetting Agent

A new surface-active wetting agent with a variety of uses is being made by the Monsanto Chemical Company. Called Santomerse S, the new product produces denser, stronger, and more uniform concrete blocks when added to concrete mix. A so-called "dry" concrete results from the use of approximately 8 ounces of the chemical in a five-bag cement mixture, allowing better dispersion of cement, cleaner equipment, and a lighter colored concrete. The agent can also be employed in household and industrial cleaning compounds, increasing efficiency and allowing the use of less liquid.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business in April held at about March levels except for seasonal declines in electric power, in steel and petroleum production, and in department store sales.

Prices

The consumers' price index for Chicago held constant at 189.1 (1935-39 = 100) during the 30-day period ending April 15, the first break in the upward price trend since May, 1950.

Farm prices moved up again, recovering the slight decline of the preceding month. On April 15, the index of prices received by Illinois farmers was 282.6 percent of the 1935-39 average, 30 percent above last April and the highest point since September, 1948. The parity ratio remained unchanged at 111, as the index of prices paid by farmers also increased during the period.

Employment

Total nonagricultural employment in the State increased by 0.4 percent during the month, with strong gains recorded in construction and in service and miscel-

laneous industries. Manufacturing employment dropped 0.8 percent to 1,219,000, with noticeable declines in both durables and nondurables.

Unemployment in the State was at a 2-year low in April, but increased somewhat in early May, when the closing of several large coal mines resulted in large-scale layoffs. Owners reported that the closed mines, most of which have been worked for 40 to 50 years, had become uneconomical to operate in view of the poor coal market.

Steel Production

Steel production in the Chicago industrial area, which has been at record levels during the past year, declined slightly from the record high of 1,646,500 tons in March to 1,609,300 tons in April. This, however, was a record for the month, exceeding the April, 1950, output by 126,200 net tons.

In the St. Louis area, Granite City Steel Company has awarded a contract to Koppers Co., Incorporated, to construct a battery of 27 chemical-recovery coke ovens. It is estimated that the new ovens will carbonize up to 1,830 net tons of coal a day. The company will also improve its coal, chemical, benzol, and coal-handling equipment. A \$35 million expansion program for its pig iron and coke plant is under consideration.

Construction

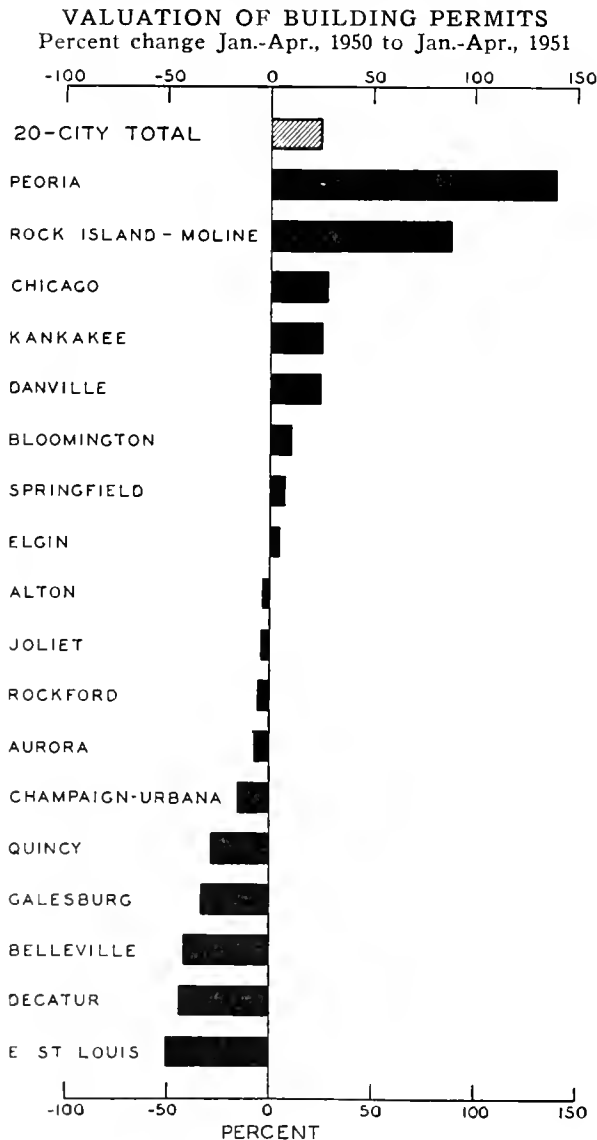
Construction in the State in April exhibited a sharp seasonal increase, with a total of \$117 million in contracts being awarded during the month. This represented a 42 percent gain over March and was 30 percent above the April, 1950, level.

The \$21 million in building permits awarded in 20 Illinois cities in April brought the total for the first four months of 1951 to \$105 million, 25.0 percent above the same period last year. (See chart.) The average reflects the 28 percent gain in Chicago building permits, which composed approximately 77 percent of the 20-city total. In contrast to last year, most cities reported declines in permit awards during this period, although many of the larger cities showed increases. Peoria had the greatest gain, more than doubling its building permit valuation; Rock Island-Moline was second with an 88 percent increase.

Commonwealth Edison Company of Chicago has announced plans to spend approximately \$450 million over the next three years in expanding its plant to meet the growing demands of defense and civilian production. By the end of 1954, the company plans to have increased its productive capacity to 3,722,000 kilowatts, double the capacity prior to World War II. Clab Aluminum Products Company has purchased the Chicago plant of the Inland Glass Works Company, and will expand the household products business of that company and manufacture some additional glass products.

The Illinois Terminal Railroad plans to consolidate its repair shops in the State in a new \$1 million plant at Edwardsville. The company now has repair shops at Alton, Granite City, and Decatur.

Bransford Fuel Company, wholesale coal company, plans a \$3 million coal mining project near Shawneetown. The company has leased mineral rights on about 3,000 acres and will begin work on installations shortly. It expects to produce approximately one million tons annually when peak production is reached.



Source: U. S. Bureau of Labor Statistics.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

April, 1951

	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS	\$21,186 ^a	850,479 ^a	\$529,978 ^a		\$10,588 ^a	\$10,410 ^a
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
NORTHERN ILLINOIS						
Chicago	\$13,621	659,622	\$394,167		\$9,685	\$8,999
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
Aurora	\$ 564	n.a.	\$7,210		\$ 39	\$ 82
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
Elgin	\$ 255	n.a.	\$5,373		\$ 26	\$ 62
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
Joliet	\$ 379	n.a.	\$9,201		\$ 43	\$ 69
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
Kankakee	\$ 260	n.a.	\$4,514		n.a.	\$ 29
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
Rock Island-Moline	\$1,805	17,292	\$9,580		\$ 31 ^b	\$ 133
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
Rockford	\$ 904	27,410	\$16,046		\$ 121	\$ 181
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
CENTRAL ILLINOIS						
Bloomington	\$ 568	4,789	\$5,379		\$ 44	\$ 85
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
Champaign-Urbana	\$ 175	7,552	\$7,192		\$ 45	\$ 78
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
Danville	\$ 196	7,579	\$5,666		\$ 37	\$ 49
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
Decatur	\$ 450	18,674	\$9,070		\$ 72	\$ 91
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
Galesburg	\$ 167	5,395	\$4,049		n.a.	\$ 28
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
Peoria	\$ 924	45,388 ^c	\$17,875		\$ 184	\$ 170
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
Quincy	\$ 255	7,420	\$4,744		\$ 33	\$ 64
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
Springfield	\$ 353	21,434 ^c	\$12,642		\$ 76	\$ 186
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
SOUTHERN ILLINOIS						
East St. Louis	\$ 81	12,753	\$8,819		\$ 127	\$ 44
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
Alton	\$ 142	10,566	\$4,503		\$ 27	\$ 25
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....
Belleville	\$ 87	4,615	\$3,949		n.a.	\$ 33
Percentage Change from.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....	{Mar., 1951..... Apr., 1950.....

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for March, 1951, the most recent available. Comparisons relate to February, 1951. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

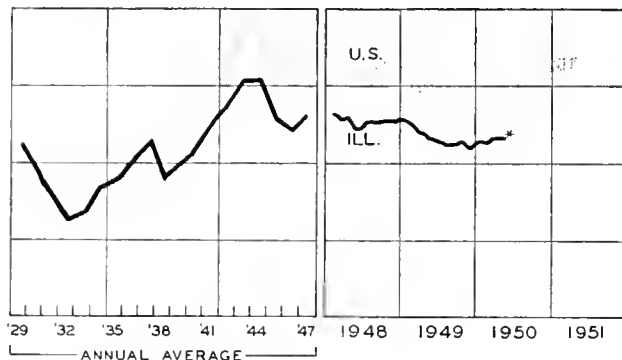
^c Includes immediately surrounding territory.

n.a. Not available.

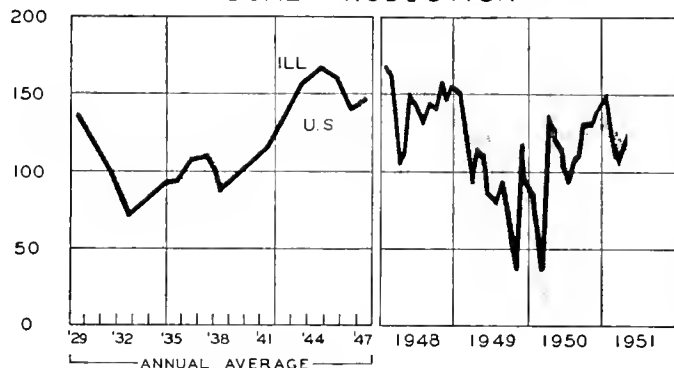
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

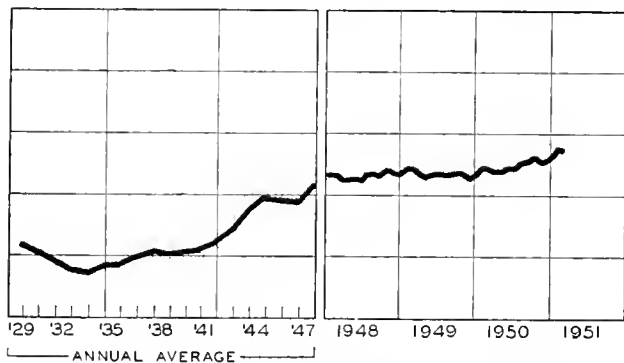
EMPLOYMENT- MANUFACTURING



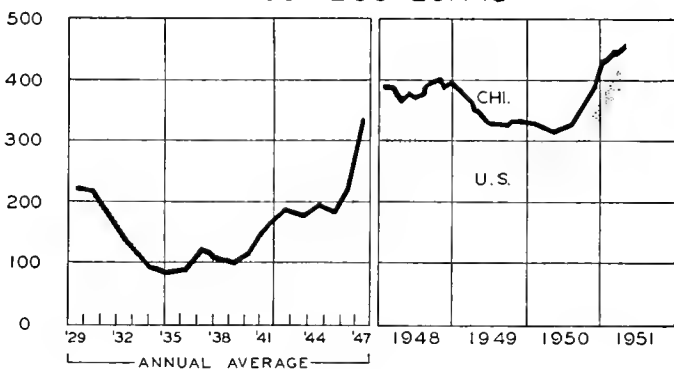
COAL PRODUCTION



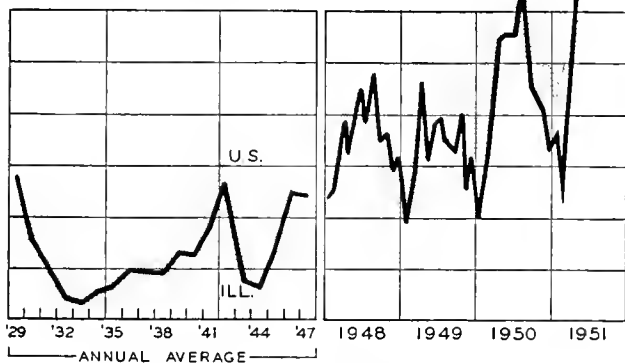
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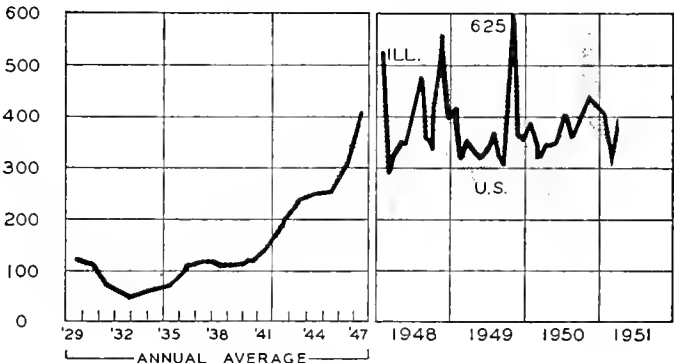
BUSINESS LOANS



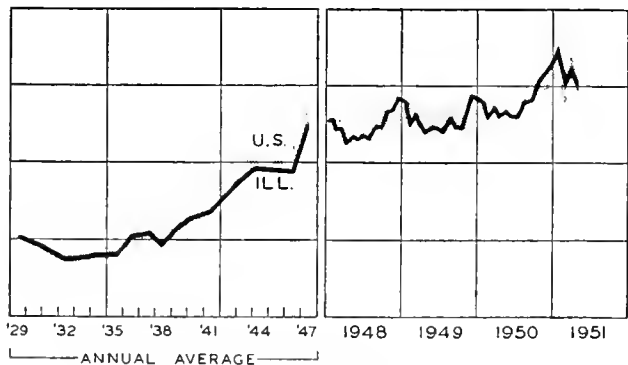
CONSTRUCTION CONTRACTS AWARDED



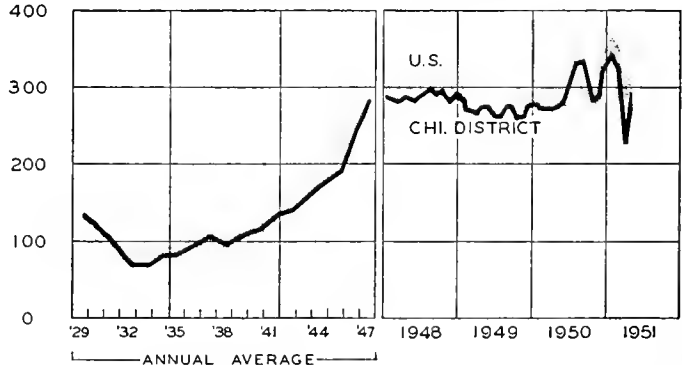
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



* Illinois figures being revised.

ILLINOIS BUSINESS REVIEW

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VOLUME VIII

JULY, 1951

NUMBER 7

HIGHLIGHTS OF BUSINESS IN JUNE

Despite rumors and maneuvers on the international scene, business activity continued strong in June. For the fourth successive month, the Federal Reserve index of industrial activity showed little change; the index in June was almost the same as the May figure of 223 percent of the 1935-39 average. Output of the durable-goods industries has been stable since March, with industrial and military equipment continuing to expand, consumer goods declining, and metals and building materials remaining about even.

The increasing likelihood that the fighting in Korea may soon be at an end has put a damper on the stock market. At the end of the month, the Dow-Jones index of industrial stocks reached a low for the year of 241.7, 22 points below the high of last May 3. (For an interpretation of this trend, see p. 2.)

Prices Turn Downward

The wholesale price declines that had begun at the end of April continued through June. By the end of the month, the highly sensitive index of 28 spot commodity prices had declined for the ninth consecutive week, and was down 4.5 percent in the month. The comprehensive BLS index of wholesale prices fell a little less than 1 percent during June, primarily as a result of a 5.2 percent drop in grain prices and lesser declines in the prices of chemicals and lumber. However, the index was 15.1 percent above the level of last June, when the Korean fighting began.

Farm prices also declined in June, the index of prices received by farmers falling to 301 percent of the 1910-14 average on June 15; this was a 1.3 percent drop from the previous month. This decline led to a 2-point drop in the parity ratio, as prices paid by farmers remained unchanged. At 106 percent of parity on June 15, the ratio was considerably above the June, 1950, figure of 97.

Construction at Peak for Month

The value of new construction put in place in June rose 6 percent above the preceding month's level to a record high for the month of \$2.7 billion; this was 5.3 percent above the figure for June, 1950. Military and industrial construction continued to form an increasing share of the total. Expenditures for the latter have risen 129 percent since the Korean war began, and outlays for public construction have increased nearly 50 percent. Pri-

vate home building, on the other hand, is down 23 percent from last year, though slightly above the May figure.

For the first half of this year, construction outlays amounted to nearly \$14 billion, an all-time high 16 percent above the record total for the first six months of 1950. The main factors in the rise were industrial building, up 108 percent, commercial building, up 48 percent, and military construction, up 517 percent. Residential building, valued at \$5.3 billion, has shown no change, which means a decline in physical volume. (The outlook for residential building is discussed in the special article on p. 6.)

Farmers' Position Improves

If the American farmer does as well in the second half of the year as he has in the first half, he should come out well ahead of 1950. For the first six months of this year, farm receipts from the sale of agricultural products amounted to \$13.2 billion, a 20 percent increase over the \$11 billion of receipts for the first half of 1950; almost all of the advance came from the sale of livestock and livestock products. Though the increase is offset in part by a 13 percent rise in the cost of goods and services purchased for farm use, it still leaves the farmer considerably better off than last year.

Manufacturers' Inventories, Backlogs Rise

Inventory holdings of manufacturers rose by a billion dollars from April to May to an all-time peak of \$38.8 billion. Most of the increase was concentrated in the durable-goods industries, whose stocks now amount to \$18.5 billion. Although the sales of nondurable-goods manufacturers are more than twice as large as those of durable-goods manufacturers, the inventory holdings of the two groups of manufacturers are now nearly the same.

New orders placed with nondurable-goods manufacturers are running behind sales, but among durable-goods manufacturers backlogs are continuing to accumulate despite increased sales. Unfilled orders on the books of durable-goods manufacturers rose by \$750 million in May. However, the over-all increase in manufacturers' backlogs was the smallest since the Korean outbreak, \$400 million, as the result of a \$300 million decline of new orders for nondurable-goods relative to sales.

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Stock Market Basically Strong

The peace talks beginning at the anniversary of the Korean conflict have helped to put securities on the bargain counter again. At mid-year, the stock market as a whole was back to the level at the beginning of the year, and many stocks had fallen much further.

The bearish view is supported by the business adjustment now going forward. Production in many lines had to be cut back in order to prevent inventories from piling up, and in some lines inventories are being liquidated. If these adjustments are accelerated, there may be an actual decline in total production, including military, rather than a mere levelling off. The temporary nature of any such decline was pointed out last month.

Pessimistic appraisal of stock values is likely to be just as temporary. Business will continue prosperous and the trend at the end of the year will in all probability be upward. Profits exclusive of inventory revaluation, funds available for dividends, and actual dividend payments will all be well maintained. Investors with funds that cannot be effectively employed elsewhere are likely to find stocks attractive at prices well above the mid-year lows.

Investment Funds Seeking Outlets

Current developments in the economy are creating a situation in which investment outlets are being curtailed while funds available for investment continue to accumulate. In the months ahead, pressure of idle money seems more likely to dominate financial markets than pressure of inflationary demand for resources.

The large industrial expansion program cannot be depended upon to absorb a greatly increased volume of outside funds. It may be recalled that in a similar business readjustment in 1949, corporation finances and dividends were improved in the face of a substantial decline in reported profits.

In the present instance, corporations in the aggregate will be able to carry out their expansion programs—even assuming that those programs are not cut back in the readjustment—without the need for increased borrowing or larger new securities issues. The alternative is to accumulate cash less rapidly. This does not mean that they will have to draw down existing cash balances, but merely stop building up balances as rapidly as they did last year. This alternative may not be considered a desirable one, since many want to improve their liquid

positions, but it will be the choice if the terms on which new funds can be obtained are unattractive. The chances are that total borrowing and new issues in 1951 will be no larger than in 1950.

Other demands for funds are more definitely on the downgrade. Consumers' installment debt is bound to decline with reduced sales of durable goods, even though terms are slightly relaxed. For similar reasons, residential mortgage volume will tend downward with the trend of building activity. During the last four years, the increase in real estate mortgages has been a primary outlet for the funds of such organizations as savings and loan associations, mutual savings banks, and life insurance companies. With demands for funds reduced, they will have to find other outlets for the savings entrusted to them.

Government borrowing is also likely to be very limited. There will be little, if any, deficit this year even if scheduled increases in military programs are achieved, because receipts are increasing very rapidly with rising incomes, and the new taxes under discussion in Congress will cover most if not all of the expenditures not provided for by existing taxes.

At the same time, individual savings have sharply increased. In the second quarter, personal income continued to advance, but consumer purchases dropped back, with the result that personal saving advanced to a new post-war high, close to a \$20 billion annual rate. Later in the year, higher taxes will cut into savings, but rising incomes and further curtailment of supplies of durable goods will keep the rate of saving high. During 1951, in short, there will probably be a substantial increase in savings with no corresponding increase in borrowing.

Bond prices have recently dropped, in line with changed policy on interest rates, but this must be considered entirely a matter of policy rather than business or financial conditions; and policy now seems likely to turn back toward maintaining low interest rates. The Treasury requires stability of bond prices to carry through its refinancing successfully, and the volume of that refinancing is large enough to have an important influence on policy. The passing of inflationary pressure also removes the best contrary argument of the Federal Reserve, namely, that higher interest rates are needed as a means of restricting credit expansion. All this suggests that the rise in interest rates which took place with so much fanfare during the early part of the year is probably at an end.

Since no "normal" relation between bond prices and stock prices has existed for some time, the decline in bond prices in no way foreshadows a decline in the stock market. Moreover, the margin of stock yields over bond yields is extremely high—about 6½ percent as compared with less than 3 percent on high-grade bonds—and provides a continued incentive for the shift toward stocks.

Groups Making the Market

As a way of analyzing what is likely to happen to the stock market, it may be desirable to consider the positions of some major groups making that market. Among the most important of these are the institutional investors, such as universities, trust funds, insurance companies, savings banks, and that newest important form of institutionalized savings, labor's pension funds. During the past year or two, many investors of this kind have departed somewhat from a policy of twenty years' standing and have been moving in a limited way into stocks. In

(Continued on page 8)

PHOTOGRAPHIC EQUIPMENT

During the years between 1939 and 1947 there was a remarkable expansion in the manufacture of photographic equipment. By 1947 the number of firms in the industry had increased from 160 to 366 and the work force had jumped from 23,000 to 50,000 employees. Value of product was at a record high of \$440 million, up 230 percent from the \$133 million 1939 total.

Photographic apparatus made by the industry includes both still and motion picture cameras and projectors, microfilm machines, and accessories such as plates, film, tripods, film reels, enlargers, and projection screens. Motion picture and still photography equipment each contributed about 20 percent to the total value of the industry's production in 1947, while film accounted for one-third.

There has been a substantial rise in the number of companies manufacturing still projectors. Although projectors for slides and strip film contributed only 2 percent of the total value of production in 1947, their 577 percent rise over 1939 sales was the largest single increase in product value reported by the industry, exceeding even the 400 percent rise in movie camera sales.

Fast-Growing Illinois Industry

Between 1939 and 1947 production of photographic equipment in Illinois rose sharply, doubling even the increase shown by the thriving industry as a whole. The \$68 million worth of photographic equipment manufactured in the State in 1947 represented a rise of 500 percent over the total Illinois value of product in 1939.

The 1947 Census of Manufactures listed Illinois as the second ranking state in the industry, with 15 percent of the total national value of product. Concentrated in the Chicago area, the 72 Illinois firms manufacturing photographic equipment in 1947 employed 6,800 workers, compared with a total of 33 firms and 2,300 workers in 1939.

The industry is largely made up of small enterprises, with 60 percent of the firms employing fewer than 20 workers. A few large companies boost the national average number of employees per firm to about 140, compared with an average of 95 workers for Illinois companies. Two of the eight photographic equipment manufacturers in the country employing more than 1,000 workers are Chicago firms—the Revere Camera Company, and Bell and Howell, the largest Illinois company in the industry.

Several outstanding producers of photographic accessories are also located in Chicago. G-M Laboratories ranks high in the photoelectric exposure meter field as well as in the manufacture of slide projectors for home use, and the Radiant Manufacturing Corporation is one of the leading firms making motion picture and slide projection screens.

Outstanding in Motion Picture Field

Still cameras and motion picture equipment are not ordinarily both made by the same company, although one

firm commonly makes both cameras and projectors. Most of the Illinois photographic production consists of movie apparatus. The Revere Camera Company specializes in amateur motion picture equipment, whereas Bell and Howell manufactures a large part of the professional equipment used throughout the world, although the greatest portion of the company's sales is in the 8 and 16 mm. camera and projector lines.

Bell and Howell has been outstanding in the manufacture of professional movie equipment since the days of the nickelodeon. When the company entered the field, each inventor had his own favorite film size, and film exposed in the camera of one often could not be shown in a projector developed by another.

In 1908 Bell and Howell produced the first 35 mm. film perforator, which evenly spaced the perforations used to guide the film through camera and projector and for the first time did away with the common "flicker" effect. The company also put on the market a standard 35 mm. camera and soon afterward announced the invention of a 35 mm. continuous film printer which eliminated slow frame-by-frame printing of film. The Bell and Howell combination of camera, perforator, and printer finally standardized the industry on a film 35 mm. wide, today the standard size professional film.

Another of the pioneer firms in the industry was Motiograph, Inc., in Chicago, credited with building and marketing the first commercially practical moving picture machine. Today, in addition to professional cameras and projectors, Motiograph makes arc lamp-houses, power generators, and drive-in theater equipment.

Expanding Markets

Two of the industry's fastest growing markets are amateur motion picture photography and institutional and home use of 16 mm. sound projectors. A new source of demand for both 16 and 35 mm. equipment is the filming and projection of television programs, 40 percent of which were originally made on film in 1950. In another area of the field, microfilming has become an essential business tool for a variety of record-keeping applications in offices and factories.

Films are gaining importance as a tool of industrial engineering in time and motion studies. Motion picture projection, with its slow-motion mechanism, makes possible the detailed study of plant operations in office quiet. Such photographic studies establish standard performance rates and prove the fairness of production requirements, eliminate wasteful rehandling, and locate faulty action.

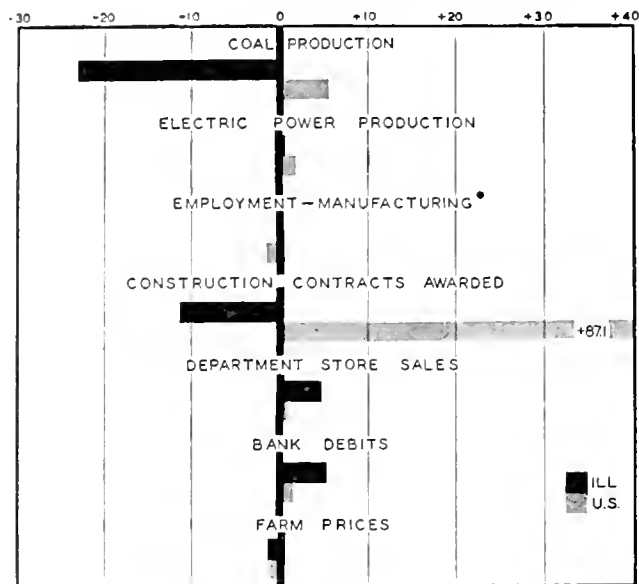
Additional industrial use of films as an aid in training both salesmen and factory workers represents a further recognition of the value of visual aids as an educational device. The industrial applications of photography and the great variety of training films widely distributed in schools, churches, and the armed forces indicate that motion picture equipment has a future far beyond its traditional use as a medium of entertainment.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes April, 1951, to May, 1951



ILLINOIS BUSINESS INDEXES

Item	May 1951 (1935-39 = 100)	Percentage Change from	
		April 1951	May 1950
Electric power ¹	301.6	+ 0.2	+13.6
Coal production ²	96.5	-22.7	-18.2
Employment—manufacturing ³	n.a.	.....	.....
Payrolls—manufacturing ³	n.a.	.....	.....
Dept. store sales in Chicago ⁴	243.6 ^a	+ 4.0	+ 6.3
Consumer prices in Chicago ⁵	189.8 ^b	+ 0.4	+ 8.8
Construction contracts awarded ⁶	623.5	-11.2	+12.3
Bank debits ⁷	354.5	+ 4.4	+21.5
Farm prices ⁸	278.2	- 1.6	+20.6
Life insurance sales (ordinary) ⁹	222.9	+ 1.1	+10.4
Petroleum production ¹⁰	229.9	+ 8.7	- 2.1

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Repts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a Seasonally adjusted. ^b New series. Old series index for May was 190.8. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	May 1951	Percentage Change from	
		April 1951	May 1950
	Annual rate in billion \$		
Personal income ¹	249.5 ^a	+ 0.2	+16.3
Manufacturing ¹			
Sales.....	282.0 ^a	+ 4.9	+21.8
Inventories.....	38.8 ^{a, b}	+ 2.4	+30.6
New construction activity ¹			
Private residential.....	10.2	- 3.2	-17.6
Private nonresidential.....	10.2	+ 7.6	+29.3
Total public.....	9.8	+16.6	+39.2
Foreign trade ¹			
Merchandise exports.....	16.2	- 1.7	+63.2
Merchandise imports.....	12.2	- 0.6	+54.5
Excess of exports.....	4.0	- 4.9	+97.0
Consumer credit outstanding ²			
Total credit.....	19.2 ^b	+ 0.3	+12.3
Installment credit.....	12.9 ^b	+ 0.1	+10.7
Business loans ²	19.1 ^b	0.0	+43.2
Cash farm income ³	25.4	+ 1.5	+15.4
	Indexes (1935-39 = 100)		
Industrial production ²			
Combined index.....	223 ^a	0.0	+14.4
Durable manufactures.....	277 ^a	- 0.4	+19.9
Nondurable manufactures...	198 ^a	0.0	+ 9.4
Minerals.....	165 ^a	+ 0.6	+13.8
Manufacturing employment ⁴			
Production workers.....	167	- 0.6	+ 9.3
Factory worker earnings ⁴			
Average hours worked.....	108	- 1.0	+ 1.8
Average hourly earnings.....	265	+ 0.4	+ 9.9
Average weekly earnings.....	287	- 0.6	+11.8
Construction contracts awarded ⁵	1,089	+87.1	+90.9
Department store sales ²	303 ^a	+ 0.3	+ 4.5
Consumers' price index ⁴	185 ^a	+ 0.4	+ 9.5
Wholesale prices ⁴			
All commodities.....	227	- 0.4	+17.3
Farm products.....	263	- 1.4	+21.2
Foods.....	237	+ 0.8	+17.1
Other.....	211	- 0.4	+16.2
Farm prices ³			
Received by farmers.....	285	- 1.3	+23.5
Paid by farmers.....	226	- 0.4	+11.0
Parity ratio.....	108 ^d	- 0.9	+11.3

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.

^a Seasonally adjusted. ^b As of end of month. ^c New series 185.4; old series 185.4. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1951					1950
	June 23	June 16	June 9	June 2	May 26	June 24
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,839	1,723	1,648	1,613	1,626	1,758
Electric power by utilities.....mil. of kw-hr.....	6,835	6,747	6,734	6,445	6,653	6,102
Motor vehicles (Wards).....number in thous.....	149.8	147.4	143.3	111.8	150.7	196.3
Petroleum (daily avg.).....thous. bbl.....	6,111	6,108	6,087	6,086	6,081	5,276
Steel.....1935-39 = 100.....	231.1	231.1	231.1	230.0	232.0	216.1
Freight carloadings.....thous. of cars.....	833	826	813	745	812	810
Department store sales.....1935-39 = 100.....	265	305	311	273	290	250
Commodity prices, wholesale:						
All commodities.....1926 = 100.....	181.6	181.7	181.9	182.5	182.4	157.4
Other than farm products and foods.....1926 = 100.....	170.2	170.6	170.8	170.9	171.1	148.8
28 commodities.....August, 1939 = 100.....	348.9	351.8	356.3	359.7	362.4	264.4
Finance:						
Business loans.....mil. of dol.....	19,216	19,085	18,992	19,048	19,129	13,532
Failures, industrial and commercial.....number.....	180	130	172	132	191	147

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Holds Steady

Industrial production held level during June at about 223 percent of the 1935-39 average, according to the Federal Reserve Board. Durable-goods production has remained virtually the same since March, with increases in defense output offsetting drops in consumer goods production. Steel production, averaging better than 103 percent of rated capacity, amounted to more than 2 million tons weekly during June.

Automotive output is beginning to encounter increasing supply difficulties. Materials allocations have cut into vehicle production to some extent, and will act as still more of a check during the third quarter. With June production of 615,000 cars and trucks, second-quarter output was expected to reach a total of 1,883,000 vehicles. Under new materials restrictions which became effective on July 1, production for the third quarter is to be cut to 1,475,000 units.

Machine tool shipments during May were estimated by the National Machine Tool Builders' Association at 175 percent of the 1945-47 average, the highest level since early 1944. Even so, unfilled orders remain at a level about 20 times the rate of monthly shipments.

Prices Tend Downward

The comprehensive index of wholesale prices declined 0.8 percent in the four-week period ended June 26. Farm products and foods, down 1.2 percent and 1 percent, respectively, were the chief factors.

Prices received by farmers also fell in the most recent reported period. A 1.3 percent decline during the month ended June 15 marked the fourth consecutive month of falling prices for farm products. At 301 percent of the 1910-14 average, prices received were 4 percent below the February 15 peak. Prices paid, on the other hand, remained steady, with the result that the parity ratio dropped from 108 on May 15 to 106 at mid-June.

The consumers' price index rose slightly from April 15 to May 15, up 0.4 percent to 185.4 (1935-39 = 100). Fractional rises in all but one group of commodities

(fuel, electricity, and refrigeration) entered into the over-all increase. Since June, 1951, the index has risen nearly 9 percent, with food price boosts by far the most important factor.

Business Expenditures Continue Rise

Estimated business expenditures for plant and equipment for the second and third quarters are expected to reach record levels. For the second quarter, capital expenditures of \$6.4 billion were 6 percent more than previously anticipated, and 48 percent over the corresponding period of last year. Third-quarter spending, also estimated at \$6.4 billion, is expected to be more than a third above third-quarter expenditures of 1951. This leveling off may indicate that physical plant in the aggregate is beginning to catch up with requirements. As illustrated by the accompanying chart, 1951 quarterly expenditures at annual rates exceed the previous three years, and for the second and third quarters are much higher.

A breakdown of anticipated expenditures shows that manufacturing industries continue to account for more than half the total, with estimated third-quarter spending 60 percent over the third quarter of 1951. Utilities and mining firms also plan large increases over last year.

Sales Strengthen

Manufacturers' sales recovered during May from their April slump; on a seasonally adjusted basis, sales rose about 5 percent to \$23.5 billion. Increases were widespread, with nondurables showing somewhat more strength than durables. New orders showed a further slight decrease of 3 percent to \$23.2 billion, mainly because of seasonal factors. Despite the drop in new orders, however, the backlog of unfilled orders continued to expand, rising from \$53.4 billion to \$53.8 billion. This was the smallest monthly increase since last June, and was concentrated in durable goods.

Inventory values continued the rise begun last August, with nearly \$1 billion added during May. More than two-thirds of the increase to \$38.8 billion occurred in durable goods. In the period from August, 1950, to May, 1951, inventory book values rose nearly 30 percent, whereas wholesale prices of manufactured products rose less than 10 percent. It is apparent therefore that more than two-thirds of the increase has resulted from additions to physical stocks.

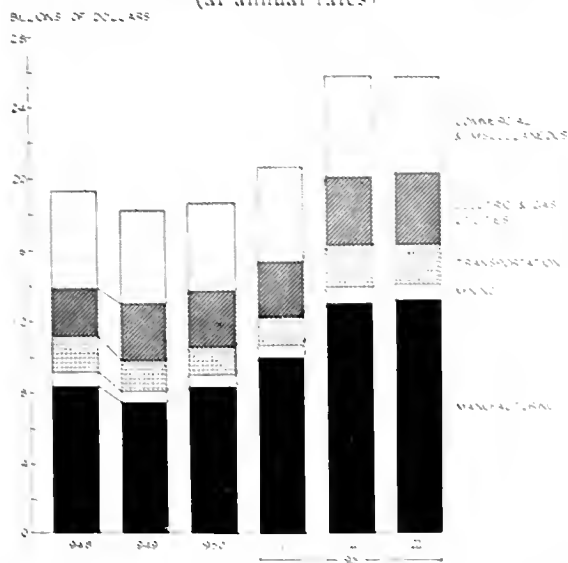
Retail sales were marked by a reversal of a three-month downtrend, increasing 6 percent over April to nearly \$12.4 billion. After seasonal adjustment total sales were substantially the same for the two months, with a slight decrease in sales of durable goods a little more than offset by minor rises in nondurable-goods sales.

Credit Line Still Holding

Credits extended to consumer purchasers remained steady during May, with only a \$61 million rise over the end of April to \$19.2 billion at the end of May. Consumer credit controls have been primarily responsible for the absence this year of the usual spring climb from the post-Christmas decline in credit outstanding.

Business loans remained fairly steady during June for the third consecutive month. During the four-week period ended June 27, loans had risen only \$172 million to a total of \$19.2 billion.

CAPITAL EXPENDITURES BY BUSINESS
(at annual rates)



Sources: U. S. Department of Commerce; Securities and Exchange Commission.

HOUSING AND REGULATION X IN 1951

H. E. RILEY*

Bureau of Labor Statistics, U.S. Department of Labor

Issued under authority of the Defense Production Act of 1950, Regulation X is an anti-inflation measure designed to restrict the volume of residential mortgage credit by setting maximum loan-to-value limits on new house financing.

The major assumptions underlying Regulation X are: (1) the schedule of maximum loan values will require higher cash down-payments than have been customary in the past; and (2) many prospective buyers will be driven out of the market because they lack ready cash to make the higher down-payments. If the regulation has the effect expected under the first assumption, there will be a relative decline in the volume of new credit. Whether buyers will be driven out of the market depends, of course, upon how much cash they have and how they choose to spend it.

Potential Effects of Regulation

When Regulation X was under consideration, the Bureau of Labor Statistics made available preliminary results of its surveys of new home financing in nine large metropolitan areas. These data, covering houses completed during the last half of 1949, revealed that nearly 40 percent of the mortgage-financed new one-family houses were bought with no down-payment. (See Chart 1.) More than two-thirds of the units were covered by VA-guaranteed loans, either with or without addi-

tional FHA-insured financing. If Regulation X had been in effect, about 90 percent of these buyers would have had to increase their down-payments.

These figures suggest that Regulation X may substantially reduce the volume of housing activity. It must be noted, however, that the data probably overstate the case somewhat, because they relate to large metropolitan areas only. Liberal FHA and VA financing under pre-Regulation terms was much more common in the large urban centers than in smaller communities, where financing with lower mortgage ratios predominates.

In adopting the schedule of maximum loan values set forth in Regulation X, it was the intention of the Federal Reserve Board and the Housing and Home Finance Administrator to restrict home building but to allow a sufficient volume of activity to prevent disruption of the industry and to satisfy, in part at least, the continuing need for additional housing. An unofficial "target" of 850,000 units, suggested by the Housing and Home Finance Administrator, has generally been recognized as the Administration's goal for 1951.

Although there were many predictions that the Regulation would reduce residential construction to a trickle, an analysis of the data available at the beginning of the new year revealed good prospects for a continuation of the building boom. It was estimated that builders held, at the end of 1950, pre-Regulation commitments covering over 400,000 dwelling units not yet under construction, which could be sold under the financing terms previously in effect. Housing activity in December and January attained an all-time peak for that season of the year.

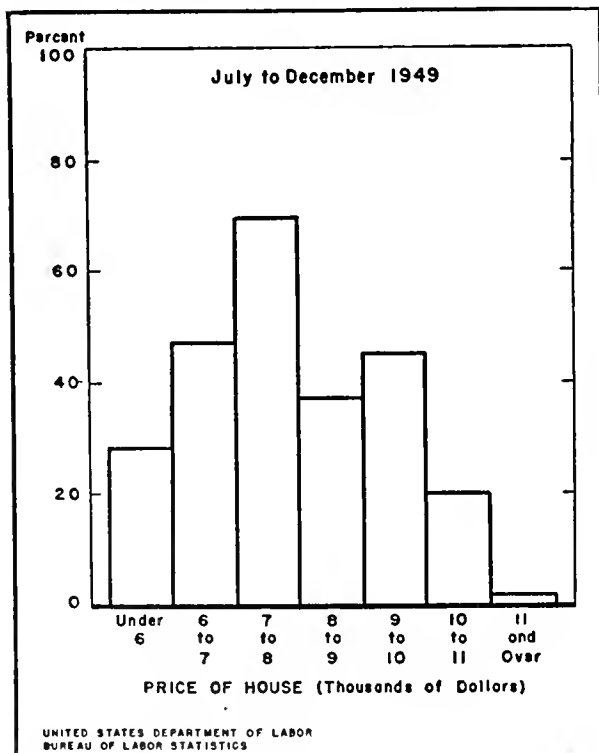
New Information on Builders' Plans

The housing market is sensitive and highly seasonal, but at the same time builders require a long "lead time"—involving land acquisition and development, arrangements for construction financing, assembling of materials, and the actual construction period. These factors impose a considerable degree of inertia, which means that the builders may not be able to curtail operations rapidly, except at the risk of considerable loss in unproductive land-holdings, through dissipation of skilled labor force, discontinued construction loan arrangements, and similar causes. Measures of current housing activity, although extremely useful economic barometers, do not provide a satisfactory guide for administrative decisions which may take practical effect several months thereafter.

The builders and the government agencies involved were concerned over the possibility that builders' decisions to curtail activities, induced by their experience or anticipation of inability of buyers to meet the stiffer credit terms, might unstabilize the industry before steps could be taken to modify the Regulation. The need was for some positive data on how the Regulation is affecting builders' sales, and what they are doing or planning about future operations. To provide this information, the Bureau of Labor Statistics was asked to undertake a series of extensive interview surveys.

In the first of these surveys, conducted in late March and early April, 1951, over 10,000 builders or *presumed* builders were interviewed. This first survey was designed to serve several purposes: (1) to provide a study of the structure of the residential building industry; (2) to

Chart 1. New 1-Family Houses Bought with no Down Payment in 9 Metropolitan Areas



* Mr. Riley is Chief of the Division of Construction Statistics. Opinions expressed in this article are those of the author, and do not necessarily reflect the views of the Department of Labor or the Bureau of Labor Statistics.

furnish some immediate data on the effects of Regulation X; and (3) to establish a bench mark against which the results of future surveys could be compared.

Because of the nature of the original sources used for establishing the universe of builders — basically local building permit records, plus field reports on activity in selected non-permit areas — it was not possible to identify initially the different persons, whose names appeared on the records, as owner-builders, contractors, or operative builders. It seemed that the significant and measurable effects of Regulation X could be observed only by repeated interviews with a panel of operative builders. The owner-builders (building for own occupancy) disappear from the sample, and the contractors' future activities are determined by decisions made by their as yet unknown clients seeking custom-built homes. Furthermore, the operative builders account for a major proportion of total nonfarm housing activity. Any one who builds houses for sale, even though he builds only one or two a year, is called an operative builder.

At this writing only partial and preliminary results of the first survey have been analyzed. In the meantime, a second survey, comprising interviews with about 7,000 operative builders identified in the first round, has been started. The first interview obtained information on the volume of the builder's home-building activity in 1949, 1950, and the first quarter of 1951, and his anticipated housing starts for the second quarter of this year. In addition, he was asked about selling-price ranges, pre-Regulation and post-Regulation financing commitments, land holdings, construction loan problems, and other related data. In the second round, the builder's actual experience will be compared with his anticipations for the second quarter, and he will be asked about his plans for the third quarter.

Recent Developments

In assessing the operations of Regulation X, we are concerned first with its effect on the total volume of housing activity. The record of housing starts for the first five months does not point clearly to the answer. The volume dropped in February, increased by 15 percent in March, showed a decidedly contra-seasonal decline in April, and confounded most of the forecasters by rising again in May. (Chart 2.)

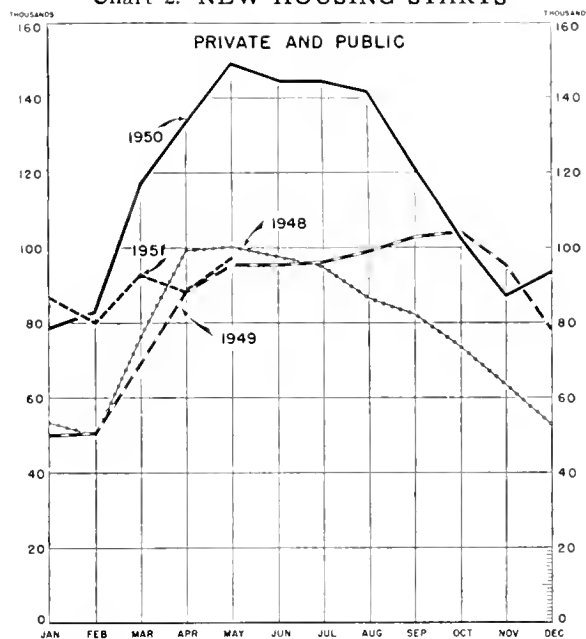
An examination of the current situation reveals several factors which may have stimulated the May increase, and which will play a part in shaping the curve for the remainder of the year. One major and unexpected element which came into prominence earlier was the shortage of new mortgage funds. This was not related to Regulation X, but rather arose out of a different set of circumstances. Among the reasons advanced for the money shortage were:

- (1) Savings banks and savings and loan associations received fewer deposits in late 1950 and early 1951 than had been anticipated. This left them with insufficient loanable funds to meet prior commitments and also take on new business.

- (2) Insurance companies had unusually large backlogs of commitments. Normally, they might have continued to extend new commitments freely but for the fact that their loan portfolios were out of balance and, more important, they were reluctant to liquidate government bonds.

- (3) The unpegging of government bond prices and the increase in bond interest rates affected not

Chart 2. NEW HOUSING STARTS



Source: Bureau of Labor Statistics.

only the insurance companies, but other lending agencies as well. Holders of bonds bought at par were unwilling to sell them at a loss. Also, the higher interest rate on governments made the 4 percent VA-guaranteed loans less attractive.

Many observers credited these factors, rather than Regulation X, with the April drop in housing starts. In analyzing the May reversal, we must not overlook the *backlog* of advance loan commitments. It is readily conceivable that most of the units started in May were covered by previous commitments which were in the lending agencies' backlog. A typical operative builder may obtain advance financing commitments, which are similar to a line of credit, covering operations which he has scheduled over some months in the future. Normally he would allocate the starts more or less uniformly over his annual production period. However, widespread rumors circulated during April and May to the effect that NPA was planning to apply further and severe restrictions on residential building. These rumors probably induced many builders to step up their schedules in order to get as many houses as possible under construction before further limitations were applied. If this analysis is valid, the builders may be expected to work off the backlog of commitments rather quickly; they will then have to make new financing arrangements for further operations.

Outlook for Building Activity

Some of the factors currently restricting mortgage funds are no doubt temporary in character. The insurance companies are still receiving a huge volume of funds in premiums and mortgage loan repayments. When they work out of the present over-commitment situation, they will probably be back in the mortgage loan market on an extensive scale. It has been suggested that savings banks and savings and loan associations experienced a decline in deposits in late 1950 and early 1951 because consumers were spending their income on consumers' goods in last year's buying spree. Sales of consumers' goods have dropped sharply since the first of the year, but personal

incomes have gained. This trend should be reflected in rising savings deposits.

The shortage of mortgage funds, therefore, may prove to be of short duration. In addition to Regulation X, there are some other possibilities to be considered. Some observers fear that the housing supply has caught up with effective demand. They point to occasional reports of slow sales as evidence that there may not be enough buyers to support an 850,000-unit year. Availability of materials and labor is also in question. Preliminary results of the first builders' survey indicate that in early April the industry was still planning an expanded program. Some 2,000 builders in three large metropolitan areas expected to start nearly 40 percent more houses in the second than in the first quarter, despite a rapid decline in their backlog of pre-Regulation-X financing commitments. About two-thirds of the houses planned for the April-May-June period were to be financed under the down-payment requirements of Regulation X, as compared with about two-fifths during the first quarter.

A total of 444,500 new nonfarm dwelling units were started in the first five months of 1951. Although this shows a decline of 20 percent, as compared with the same period in 1950, it is nevertheless an annual rate of better than a million units. Despite possible materials problems, Regulation X, limitations in funds, and possibly some reduction in the demand for new housing, it seems most likely that the target of 850,000 starts will be attained and probably exceeded. If no additional and severe restrictions are applied, the total for the year may run well over 900,000 units.

Stock Market Basically Strong

(Continued from page 2)

the stock market they operate, of course, on the most conservative basis possible, usually limiting their purchases to high-grade investment issues.

That they have shifted into stocks at all requires explanation. The move may be explained in part by the dissipation of depression fears at a time when dividend yields were substantially higher than bond yields. More importantly, it seems to derive from inflation fears; for many financial people have developed a firm bias to the effect that inflation is a permanent part of our economy. Being convinced of this, they are faced with the question of how they can maintain their equity as the value of the dollar declines.

There seem to be two possibilities. The first is to get interest rates up, so that higher income will re-establish the value of capital in a shorter time; and this clearly has been part of the effort, as rising interest rates indicate. The second is to move out of bonds and other fixed-price securities into stocks, real estate, or other assets whose prices could go up with commodity prices.

Although the inflation is at least temporarily checked, the flow of funds from these institutional sources into stocks will probably continue. The public will be turning over to them an even larger volume of savings, and with funds piling up in the face of diminished outlets, stocks will almost have to be taken if available funds are to be efficiently used. High yields have much attraction for investment funds and are well protected by earnings.

The second group of investors to be considered may be referred to as the general public. In the aggregate, they, too, have substantial funds to invest. Their war

Some evidence now available suggests, however, that the year's production will include an increasing proportion of larger and higher-priced houses. Bureau of Labor Statistics surveys in six large metropolitan areas show that the average construction cost of one-family houses increased from \$10,130 in the second and third quarters of 1950 to \$11,765 in the first quarter of 1951. More significantly, 46 percent of the 1950 houses had a floor area of 1,000 square feet or more. In the 1951 period the proportion had increased to 59 percent. In 1950, 17 percent had more than one bathroom. In 1951, 23 percent had more than one bathroom. This shift may result from the fact that cash down-payments required by Regulation X, although applied on a graduated scale, are nevertheless a greater burden for the buyers of low-priced houses than for those seeking relatively high-priced accommodations.

World War II veterans have bought a major proportion of the large volume of low- and medium-priced housing produced during the past few years. As noted earlier, most of these sales have been financed with no down-payments or very small cash outlays. On the other hand, the higher-priced housing has been covered by FHA-insured or uninsured conventional-type loans. A buyer's initial equity of 40 to 50 percent has usually been required in this type of financing. The maximum down-payment required by Regulation X is 50 percent, applying to properties valued at \$24,250 or more. Whether or not these buyers have been less affected by the Regulation, many builders seem to anticipate less difficulty in selling larger, more expensive houses in 1951.

bonds, for example, are beginning to mature in volume. They, too, kept out of the market for many years, and only last year began to swing away from their long-standing fear of speculation. So far, they have had only a taste of speculative gains, and have not yet swung over to general market participation. In fact, they are again temporarily standing aloof, keeping the market "thin."

Both inflation and deflation tend to keep "the public" out. Both tend to create states of uncertainty and insecurity which restrain investment action. In the period ahead, with commodity prices relatively stable and production turning more definitely upward, conditions will be most favorable for a continuation of the postwar swing in speculative psychology. In all probability, greater numbers will "jump in" as soon as the market gives signs of resuming the rise.

The third group making the market may be described as the "professional" speculators. In contrast to the institutional investors, who generally play the conservative line, often with the help of formula plans, this group seeks the greatest advantage by getting in on any move early and playing it to as near the end as possible.

The uncertainties of recent years have tended to make them jittery. Their action is erratic, but effective when markets are thin and business trends hang in the balance. They seem more likely to accentuate the swings of the market than to determine basic trends. There is no reason to think they won't join in pushing a new movement ahead.

Today, peace jitters give the market a temporary setback. Perhaps the next setback will come as the result of a new war scare. All the basic factors in the economy continue to point toward higher levels.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Industrial Plant Security

"How to Prepare Your Plant for Atomic Attack" is the title of an illustrated booklet on industrial plant security in the atomic age being distributed free of charge by Walter Kidde and Company, Inc. (40 East 34th St., New York 16, N.Y.). It is designed to provide industrial management and safety personnel with factual information about the atomic bomb and a guide to plant management in organizing personnel to cope with possible plant disasters. Recommendations are included for strengthening plant construction and sustaining production in the face of bomb attack.

Aluminum Welding Process

A new method of welding aluminum makes possible for the first time the use of that metal in large amounts on the topsides of fighting ships. The great saving in weight over the use of steel is said to make the ships more stable and seaworthy, and allows the use of more armament. Previously aluminum was never used extensively on ships except where it could be riveted or spot-welded under very high pressures. The sealing of aluminum joints by welding has been difficult because in contact with air the metal covers itself with a coating of inert aluminum oxide. With the new process, a small portable gun, which can seal a joint from any position, feeds a filler wire of an aluminum alloy through an electric arc and at the same time sets up a field of helium gas around the area to be welded which keeps out the surrounding atmosphere. The process, called gas-shielded metal arc welding, was developed for the Navy by Air Reduction Laboratories, Murray Hill, N.J.

Agricultural Yearbook

The 1950-1951 Yearbook of Agriculture entitled "Crops in Peace and War" may now be obtained from the Government Printing Office, Washington 25, D.C. It includes information on the processing of all major American farm products, their industrial and food uses, and their by-products. A special section describes research and procedures involved in finding new uses for farm products.

New Industrial Tape

The Industrial Tape Corporation (New Brunswick, N.J.) has announced the development of a Fiberglas reinforced tape which can replace steel strapping in packaging, thus releasing the metal for more vital uses. The tape has an exceedingly high tensile strength, approximately 200 pounds per square inch, and is well suited for tying packages in typical post-office fashion.

Removal of Forging Scale

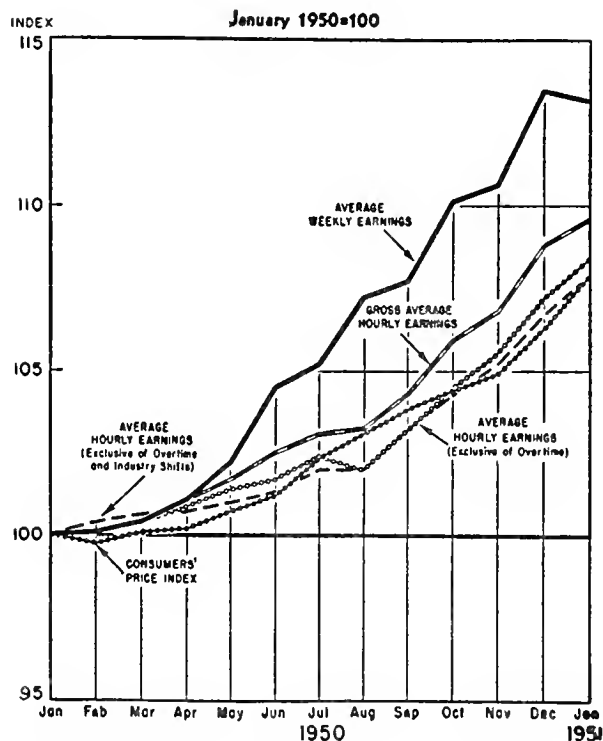
A preheat chemical bath which is said to completely remove furnace scale in heat-treating steel forging is currently being marketed by the Pennsylvania Salt Manufacturing Company. Parts are immersed in the Pensalt R-4 bath for five minutes and then may be placed directly into heat-treating furnaces or stored. Forging scale must be removed from all forgings before machin-

ing if close tolerances are to be obtained. The scale is an iron oxide which is harder than steel, very abrasive, and clings tenaciously to the forgings, making removal a difficult problem.

Wages in 1950

The June, 1951, issue of the *Monthly Labor Review* contains an article on "Wage Trends in 1950." As shown by the chart, there were widespread wage increases during 1950, resulting first from the business recovery from the mid-1949 low and then from the economic conditions caused by the Korean outbreak. Whereas collective bargaining in 1949 had focused mainly on pension and insurance plans, in 1950 it increasingly concentrated on wage rates. By June, 1950, the country had reached a high level of prosperity when the Korean conflict caused a further increase in the number and size of wage adjustments. Weekly earnings rose 13.3 percent during the year while the work week was lengthened from 39.7 to 41 hours. About one-third of the changes in weekly earnings, which occurred before the Korean war, was largely the result of the longer hours of work, but after June the increase was due primarily to the advance in hourly earnings.

TREND OF EARNINGS AND PRICES



Source: *Monthly Labor Review*, June, 1951, p. 639.

Visual Aids Boost Sales

National Sales Executives, Inc. (Hotel Shelton, 49th St. and Lexington Avenue, New York 17, N.Y.) has announced the publication of a handbook entitled "A Guide to Films and Their Uses by Sales Executives" (\$3.00).

LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity in May continued considerably above last year's level, with coal production the principal exception, down 18 percent from May, 1950. The decline was partly of a seasonal nature and partly the result of fewer mines being worked. Several strip mines were closed permanently the first part of the month.

Retail Sales

Sales of retail stores in the first four months of this year approximated \$2.8 billion, a 13.7 percent increase over the same period last year. Downstate counties registered a larger gain over the period than did Cook County, as shown by the chart below.

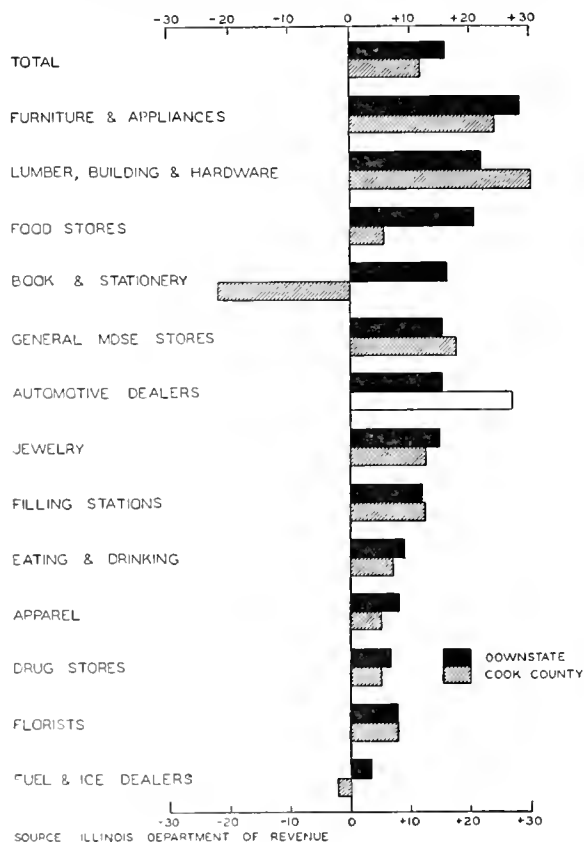
The sales of almost all types of retail stores gained in dollar volume as compared with last year, but differences in the relative increases of different types of stores are apparent by area. As the chart shows, furniture and appliances, lumber, building and hardware, and food stores recorded the largest sales increases downstate, whereas in Cook County the order of rank was lumber, building and hardware, automotive, and furniture stores. The smallest gains were recorded for apparel stores, drug stores, florists, and fuel and ice dealers. (The sharp drop pictured on the chart in book and stationery store sales in Cook County was probably due to changes in classification rather than to any real decline in sales.)

Steel Production

Steel production in the Chicago area increased. Production for the month was 1,672,500 net tons, an all-time peak 4 percent above April and 8 percent over May, 1950.

RETAIL SALES BY MAJOR KINDS OF BUSINESS

Percent change Jan.-Apr., 1950 — Jan.-Apr., 1951



Plants in the area operated at over 107 percent of capacity throughout the month.

According to a report by the American Iron and Steel Institute, all major steelmaking districts in the nation are increasing their steel furnace capacity. The six-state area which includes Illinois is scheduled to have a total capacity of 23.9 million tons by 1953, approximately one-fifth of the national total. This would represent an 11 percent increase over the present 21.5 million tons capacity. Most steel capacity in this area is located in Cook County, Illinois, and Lake County, Indiana. Of the 2 million net ton output of the six-state area in May, well over 90 percent was produced in steel mills in these two counties.

Construction

The \$104 million of construction contracts awarded in the State in May set a new record for the month but fell below the \$117 million awarded in April, the second largest amount awarded for any month on record. The decline from April was entirely in nonresidential contracts; residential contracts were up 9 percent and public works contracts increased approximately 40 percent.

Building permits issued in May in 20 selected Illinois cities were up 43 percent over April, primarily because of the large increase in Chicago permits. East St. Louis, with a more than 500 percent increase, reported the greatest relative gain.

Caterpillar Tractor Company at Peoria has been awarded a \$22 million contract by the army for tractors, the second largest order received by the company from the government this year. The company's new 700,000 sq. ft. plant at Joliet will soon be completed. National Video Corporation, one of the major manufacturers of television tubes, has purchased a plant in Grayslake and will manufacture miniature and sub-miniature receiving tubes for civilian and government use.

American Radiator and Standard Sanitary Corporation is converting its Litchfield plant to defense work. The company has a contract with the Air Force to manufacture sand-molded magnesium castings for use in fighter and bomber planes and for other defense vehicles.

Gould-National Batteries, Inc., is building a \$3 million plant in Kankakee. The plant will employ between 300 and 350 persons and will make torpedo and submarine batteries for the Navy.

Clearing Machine Corporation is constructing a new plant at Joliet, at a cost of approximately \$1 million. The plant will be used for machining and assembling small parts for the company's line of hydraulic and mechanical presses.

Prices

For the second consecutive month the consumers' price index for Chicago showed little change, up 0.4 percent from mid-April to mid-May, the same percentage gain as for the nation. The index on May 15 was 189.8 percent of the 1935-39 average, 9 percent greater than last May.

Illinois farm prices declined 1.6 percent between April 15 and May 15 to 278.2 percent of their 1935-39 average. Since prices paid by farmers declined even less during the period, the Illinois parity ratio at 110 showed only a small decrease.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

May, 1951

	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS	\$29,944 ^a	827,542 ^a	\$483,006 ^a		\$11,052 ^a	\$11,266 ^a
Percentage Change from.... {April, 1951....	+42.3	-2.7	-8.9	+12.2	+4.4	+8.2
{May, 1950....	+9.5	+8.7	+7.0	+5.2	+21.5	+4.8
NORTHERN ILLINOIS						
Chicago	\$22,288	643,322	\$356,044		\$10,100	\$9,850
Percentage Change from.... {April, 1951....	+63.6	-2.5	-9.7	+12.8	+4.3	+9.5
{May, 1950....	+20.5	+7.4	+6.9	+5.6	+22.3	+5.3
Aurora	\$ 441	n.a.	\$6,852		\$ 41	\$ 75
Percentage Change from.... {April, 1951....	-21.8		-5.0	+3.7	+6.2	-8.5
{May, 1950....	-32.2		+12.1	+3.9	+18.2	-8.4
Elgin	\$ 416	n.a.	\$5,024		\$ 27	\$ 76
Percentage Change from.... {April, 1951....	+63.1		-6.5	+7.7	+5.8	+23.1
{May, 1950....	+22.4		+7.7	+12.5	+16.6	+17.0
Joliet	\$ 329	n.a.	\$8,449		\$ 46	\$ 53
Percentage Change from.... {April, 1951....	-13.2		-8.2	+22.6	+8.8	-23.3
{May, 1950....	-58.7		+9.5	+10.7	+19.4	-17.4
Kankakee	\$ 113	n.a.	\$4,128		n.a.	\$ 30
Percentage Change from.... {April, 1951....	-56.5		-8.6	+1.7		+3.3
{May, 1950....	-50.2		+0.7	-5.4		+14.4
Rock Island-Moline	\$1,838	17,455	\$9,346		\$ 35 ^b	\$ 126
Percentage Change from.... {April, 1951....	+1.8	+0.9	-2.4	n.a.	+14.4	-5.3
{May, 1950....	+44.0	+12.3	+11.5		+10.5	-9.7
Rockford	\$ 775	25,478	\$15,209		\$ 126	\$ 156
Percentage Change from.... {April, 1951....	-14.3	-7.1	-5.2	+8.8	+4.1	-11.1
{May, 1950....	-44.6	+18.0	+11.7	+3.9	+23.8	-0.9
CENTRAL ILLINOIS						
Bloomington	\$ 318	4,829	\$4,634		\$ 45	\$ 99
Percentage Change from.... {April, 1951....	-44.0	+0.8	-13.8	n.a.	+1.2	+15.8
{May, 1950....	+95.1	+9.2	+0.1		+6.1	+3.2
Champaign-Urbana	\$ 197	7,591	\$6,673		\$ 49	\$ 89
Percentage Change from.... {April, 1951....	+12.6	+0.5	-7.2	n.a.	+8.7	+14.6
{May, 1950....	-56.6	+13.4	+3.6		+7.7	+5.1
Danville	\$ 240	7,324	\$5,438		\$ 39	\$ 46
Percentage Change from.... {April, 1951....	+22.4	-3.4	-4.0	+10.8	+5.8	-7.5
{May, 1950....	-7.0	+10.4	+7.9	+5.5	+18.1	-1.7
Decatur	\$ 682	18,477	\$8,728		\$ 76	\$ 92
Percentage Change from.... {April, 1951....	+51.6	-1.1	-3.8	+2.8	+4.8	+1.3
{May, 1950....	-12.0	+31.5	+5.4	-3.4	+8.9	+10.3
Galesburg	\$ 138	5,582	\$3,720		n.a.	\$ 27
Percentage Change from.... {April, 1951....	-17.4	+3.5	-8.1	n.a.		-6.7
{May, 1950....	-54.6	+23.4	+3.0			+1.5
Peoria	\$ 655	46,273 ^c	\$16,400		\$ 191	\$ 175
Percentage Change from.... {April, 1951....	-29.1	+1.9	-8.3	+8.5	+3.9	+3.0
{May, 1950....	+1.4	+11.4	+9.7	+0.8	+5.6	0.0
Quincy	\$ 191	4,829	\$4,545		\$ 35	\$ 65
Percentage Change from.... {April, 1951....	-25.1	-34.9	-4.2	+4.0	+8.2	+1.4
{May, 1950....	-27.7	-16.2	+1.9	+5.0	+17.0	-1.0
Springfield	\$ 565	20,800 ^c	\$11,394		\$ 82	\$ 198
Percentage Change from.... {April, 1951....	+60.1	-3.0	-9.9	+12.5	+8.0	+6.2
{May, 1950....	-16.8	+12.1	+2.0	+2.0	+14.6	+5.1
SOUTHERN ILLINOIS						
East St. Louis	\$ 495	11,012	\$8,476		\$ 131	\$ 51
Percentage Change from.... {April, 1951....	+511.1	-13.7	-3.9	n.a.	+3.5	+17.1
{May, 1950....	+61.2	+25.4	+11.1		+17.9	+17.3
Alton	n.a.	10,514	\$4,182		\$ 28	\$ 23
Percentage Change from.... {April, 1951....		-0.4	-7.1	n.a.	+5.2	-6.4
{May, 1950....		+4.9	+5.3		+18.1	-6.8
Belleville	\$ 263	4,057	\$3,763		n.a.	\$ 35
Percentage Change from.... {April, 1951....	+202.3	-12.1	-4.7	n.a.		+3.5
{May, 1950....	-17.3	+1.2	+7.1			+20.4

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for April, 1951, the most recent available. Comparisons relate to March, 1951. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

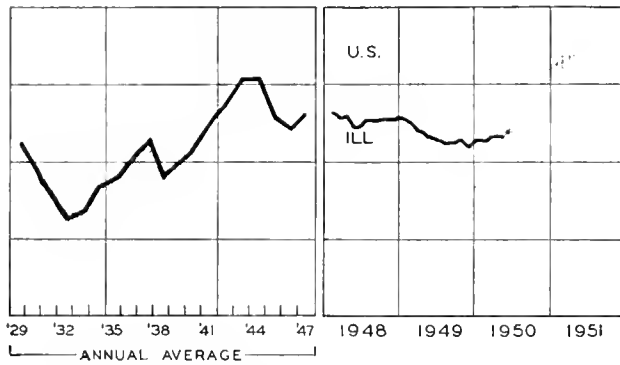
^c Includes immediately surrounding territory.

n.a. Not available.

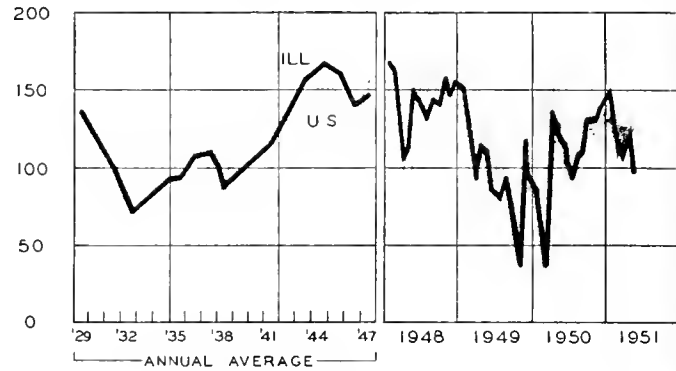
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

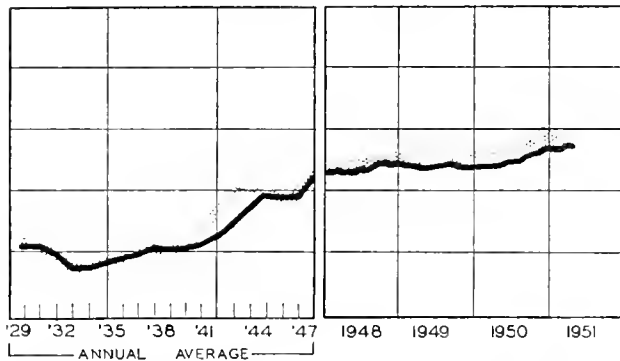
EMPLOYMENT-MANUFACTURING



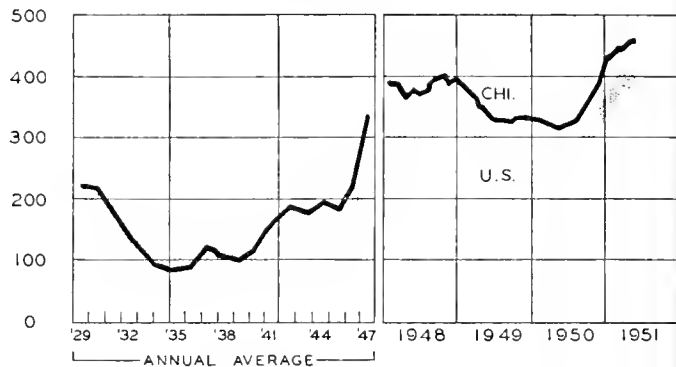
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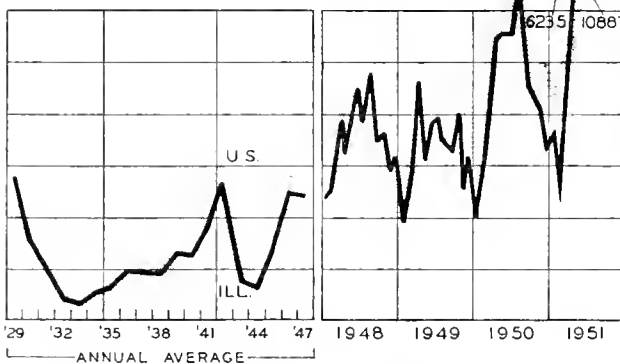
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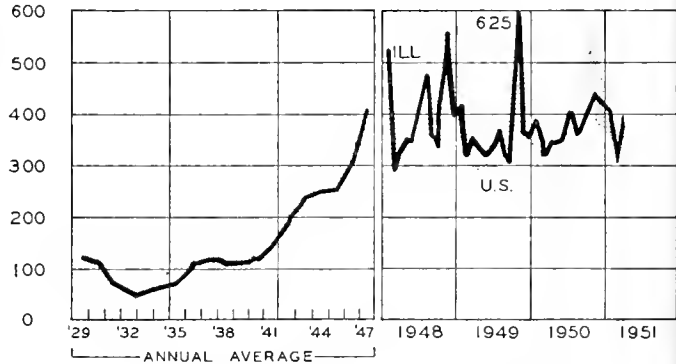
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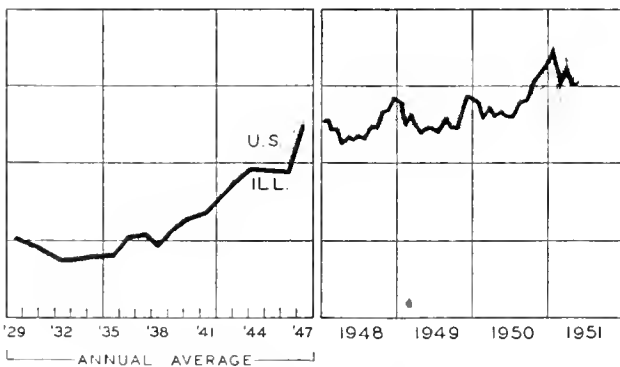
CONSTRUCTION CONTRACTS AWARDED



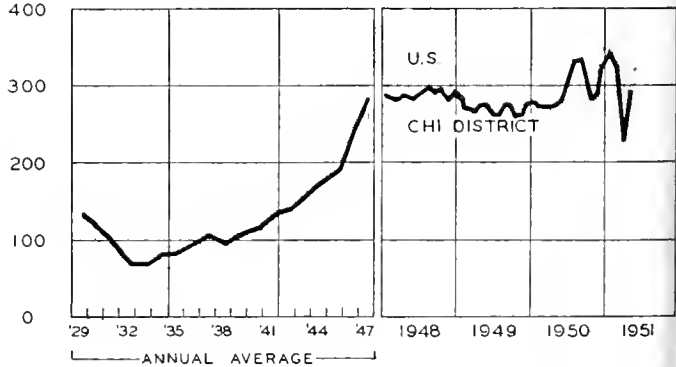
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



* Illinois figures being revised.

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



1951

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HIGHLIGHTS OF BUSINESS IN JULY

With many plants slowing down for vacation and with demand for consumer goods at a low point, the Federal Reserve index of industrial production in July is expected to decline below the June level of 223.

As a result of the reluctance of consumers to buy and the record volume of inventories in retailers' hands, orders received by many manufacturers of consumer goods were insufficient to maintain production schedules. Textiles and shoes proved particularly weak. With retailers heavily overstocked, orders slumped sharply, and many plants had to curtail operations or shut down altogether. Sales of household appliances are also not doing very well, with television sales near their postwar low. On an over-all basis, however, these declines are largely offset by rising military production.

Prices Lower

Wholesale prices continued to decline in the first part of July. The highly sensitive index of spot commodity prices registered declines of more than one percent in each of the first three weeks of the month. Substantial drops were recorded in the prices of tallow, down 23 percent in the three-week period, and of rubber, down 21 percent.

The comprehensive index of wholesale prices had fallen for the eighth week in a row by July 24. However, at 178.0 of the 1926 average, the index was still more than 8 percent above the level of the corresponding week in 1950. From now on, margins shown by year-to-year price comparisons are bound to decrease, even if prices do not continue to fall, because of the rapid rise in prices during the summer of 1950.

Crop Outlook Bright

Prospects for the 1951 crop are among the most favorable on record, according to the July 1 Crop Report of the U. S. Department of Agriculture. Farmers were able to cultivate more acres this year than at any time since 1933, and as a result, the size of the 1951 crop may be second only to that of 1948. Though only rice and hay among

Because of the annual vacation of the University Print Shop this issue of the *Review* is reduced in size. It omits the usual statistical data, which are generally not yet available. We shall be glad to send copies of the missing tables to anyone requesting them. The next issue will contain the usual 12 pages.

the major crops are expected to set new production records, several others are of near-record size. The wheat harvest should exceed one billion bushels, slightly above last year, and more than sufficient to meet all current needs.

The third largest corn crop on record is in prospect, 3.3 billion bushels. Yields of other feed grains are generally also running high, and with large carry-over stocks of corn and oats on hand, farm supplies of feed grains will show but little change from last year's level. Heartening news is provided for fruit lovers also, with better-than-average prospects for apples, grapes, pears, and sour cherries.

Government Expenditures in Fiscal 1952

Latest estimates of the expenditures of the Federal government in the current fiscal year ending June 30, 1952, amount to \$68.4 billion, \$3 billion lower than earlier estimates. Nearly \$48 billion, or over 70 percent, of this total is earmarked for activities connected with national defense; \$42 billion for the Defense Department alone. More than half of the remaining \$20 billion is accounted for by two programs growing out of the last war: interest on the public debt, \$6 billion, and veterans' benefits, nearly \$5 billion. So-called normal functions of the government account for \$9.5 billion, and more than one-third of this is for continuing programs not subject to yearly budgetary control, such as public assistance grants to states, price support activities of the Commodity Credit Corporation, and public roads.

High as military expenditures may seem this fiscal year, the full impact of the defense effort on expenditures will not be felt until 1953 and beyond. This is because peak delivery, and payment, on the huge volume of contracts being entered into will not be made till 1953. As a result, direct military expenditures in fiscal 1953 are expected to approach \$65 billion, substantially above the \$42 billion estimate for this fiscal year. If this program is achieved, budget expenditures in fiscal 1953 may be \$90 billion.

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Peace Is Not Inevitable

Reports of progress in peace talks stimulate hopes that the Korean War will soon be brought to a close.

It is a long jump from the end of shooting in Korea to the final ending of cold war tensions between the East and West. Yet, many seem to have taken the gap in stride. Even before an armistice is signed, peace assumes the character of inevitability in their minds. They are ready to cut programs, abandon controls, reduce taxes, and generally "get back to normal."

World Conflict Unresolved

The hard fact is that there has been no change in the underlying world situation. The aims of the Soviet Union remain basically unchanged. The United States continues to organize and arm Western Europe for effective military action. Basic policies remain hostile, and the manner of negotiation displays lack of trust on both sides.

All that a cease-fire agreement in Korea implies is that continuation of this local war is no longer to anybody's advantage. Nobody has anything to gain. Both sides are losing. Both are willing to call it quits.

Conflict will continue in Korea even though the forces of both East and West withdraw. Sore spots in other parts of the world will continue tense because the issues producing conflict in those areas cannot be quickly resolved. The odds now seem to be against any new, dramatic incidents that might lead to World War III in the near future. Such developments retain, however, a substantial probability; and out of new challenges in any of the world's trouble spots, war may come.

The problem is one that must be faced from day to day, over a long period of time. It can be dealt with effectively only in terms of a stable policy that endures through fluctuations in mood and emotion. The danger is unavoidably increased by the wide swings in feeling that accompany minor developments in the areas of tension. Today's relief is bound to be replaced by tomorrow's annoyance. We cannot avoid war by hopping back and forth between the extremes of optimistic hope and of outraged fear and anger. On the contrary, war may well result if anything happens to set off another swing to the extreme of uncontrollable anger.

In short, the cold war continues. There could be no more serious mistake than to think that anything happening in Korea could sufficiently change conditions to hold the promise of "peace in our time."

Size of the Military Program

Although a certain amount of confusion momentarily arises, although national unity may be further reduced and support for the military program partially dissipated, there is as yet no justification for abandoning the programs that have been undertaken.

Recognition of this seems bound to prevail. The Administration has already stated its firm adherence to existing policy. Advocates of opposing policy have gained strength but remain a minority.

The Administration view is mistaken nonetheless in holding that there can be no change whatsoever in plans previously decided upon. Rumors from Washington indicate that to offset any possible let-down in war sentiment, the Defense Department is planning soon to ask for an increase in authorized strength of the armed forces from 3.5 million to 5 million men. Any such move, conceived to affect sentiment rather than to deal with realities of the international power situation, is diversionary in intent and purpose.

This mistaken insistence on an inflexible point of view can, in the end, be only harmful. We cannot artificially maintain a posture of national alarm without building distrust and opposition at home and abroad. Frenzied striving for goals that could be almost as effectively attained in a more relaxed atmosphere is bound to convince others that we are pursuing war aims. It also involves us in all the irritations and frustrations of inflation and ever-tighter controls, and aggravates opposition which will hamper the effectuation of sound policy.

The country will soon be faced with a decision as to how large the military program should be. Our guess is that the course of moderation will prevail. There may be no ostensible cutback in objectives, but the time when objectives are to be realized is likely to be extended, so that peak rates of production will, in effect, be cut back.

Any such change will, of course, tend to reduce the level of economic activity. First and foremost it will relieve the pressures of inflation. Only after that, and then only in a minor way, will employment and production be affected. A postponement involving a moderate cutback in the peak rate of expenditures to be reached in fiscal 1953 would add correspondingly to later production and go far toward preventing the projected decline in fiscal '54. It would, however, still provide rates of production high enough to ensure prosperity. This prospect of prosperity without inflation offers the best hope for success in almost any kind of venture in the years ahead.

The Way to Peace

Most important of all the ventures we are engaged in is that of dealing with the problem of international relations. We increasingly recognize how exacting it is. We have been awakened to the realization that we must be strong. We are currently setting up the productive facilities that will make us strong, even if the program is modified to provide lower rates of current output.

More likely to be disregarded is the fact that the stronger we become the more important it becomes to use our strength with care. We shall have to keep opposition to aggression from leading to aggression.

There is a tendency, on the part of anyone prepared to fight, to decide at some time or other that now is the time for a showdown. The occasion for such a decision can be indefinitely postponed if we keep in mind that just because we are prepared to fight does not mean that

(Continued on page 7)

COMMERCIAL EXPLOSIVES

Although many people associate explosives primarily with military operations, the industrial life of the nation is dependent on their use. Over 75 percent of the total product value of the commercial explosives industry in 1947 consisted of industrial explosives, essential to all types of construction and to the recovery of the metal and mineral wealth of the nation.

In 1949 over 600 million pounds of commercial explosives were consumed in the United States. The industry's largest customer was bituminous coal mining, but the demand for explosives comes from almost every sector of the productive economy. Steel production would be impossible without iron ore and the limestone and coal needed to refine it, all of which are made available by explosives. In agriculture, explosives are an important ally of the farmer who uses them to break up rock, destroy stumps, dig ditches, and straighten streams.

The Industry in Illinois

The first Illinois explosives plant was founded at East Alton by Franklin W. Olin in 1892, at a time when black powder, the leading commercial explosive, was vital to the nation's growing railroad and coal mining industries. The annual tonnage of coal mined in Illinois was second only to the yearly production of Pennsylvania and yet there was only one powder mill in the Middle West. Soon the East Alton plant was furnishing black blasting powder to Illinois coal mines at a much lower cost than could be met by Eastern manufacturers.

Today the Alton district is the center of the Illinois explosives industry. Olin plants in the area are making not only black powder, blasting caps, and high explosives, but millions of rounds of shells and cartridges, many of them designed for use in rifles made by the Winchester Repeating Arms Company in Connecticut, an Olin subsidiary since 1932.

Although the bulk of explosives production is still concentrated on the East and West coasts, Illinois had 7 of the nation's 76 explosives plants in 1947. The Census of Manufactures does not give a complete state breakdown, but Illinois is probably the fourth ranking state in the industry, in both production and consumption of explosive products.

The seven Illinois manufacturers include the DuPont high explosives plant at Seneca; the Illinois Powder Manufacturing Company at Grafton; and five plants which are part of Olin Industries — the Equitable Powder Manufacturing Company at East Alton, the Egyptian Powder Company plants at Alton and Marion, the Western Powder Manufacturing Company at Edwards, and the Western Cartridge Company at East Alton.

Major Types of Explosives

Industrial explosives include both high explosives and low, or slow-reacting, types. The most common high explosive is dynamite, which instantly generates a large volume of gas by rupture of its molecules when it is set

off by a blasting cap. Blasting powder, or the familiar gunpowder, is a low explosive which burns from the surface inward when fired by a flame or spark.

Explosives suitable for military purposes include both low-explosive propellants such as smokeless powder and disruptives like TNT for shell-bursting charges and mines. TNT is an abbreviation of trinitrotoluene, highly explosive crystals similar in reaction to dynamite, which are made from niter and a coal tar derivative. Although it is probably the best advertised explosive in the world, the power of TNT is generally overrated, as it is only equivalent in strength to about a 60 percent dynamite.

Black powder, ruled out as a propellant in modern warfare because its smoke would disclose the location of the gun, finds its largest use in coal and nonmetallic mining. Its production is steadily declining and about 95 percent of the commercial explosives made at present are variations of the more powerful dynamite.

High explosives, including dynamite, cannot be used as propellants as their speed of detonation is so great that they would shatter a gun. They find their largest market in coal mining, with an increasing amount sold for railroad and other construction work.

Production Processes

Black powder is still made much as it was hundreds of years ago, by mixing ground nitrates, sulphur, and charcoal under heavy iron wheels. After it is broken up into grains, the powder is sorted into different sizes to be used for various purposes according to burning speed.

The basic ingredient in dynamite is nitroglycerin, made by submitting ordinary glycerin to a mixture of nitric and sulphuric acid. Although nitroglycerin is not sensitive to heat, a sudden jar will release its unstable atoms, unleashing an enormous amount of energy. In the manufacture of dynamite, it is mixed with nitrates and wood pulp, then packed into cartridges.

To make smokeless powder, raw cotton is nitrated by soaking it in a mixture of nitric and sulphuric acids. It is then washed with water and dehydrated with alcohol. More alcohol is added to make a dough which is forced through dies, forming a cord which is cut off into short lengths and dried.

The Western Cartridge method of making "ball" powder is generally regarded as one of the fundamentally important developments in the field of smokeless powder. The ingredients are heated and combined into a lacquer emulsion which is broken up into small spheres by agitator blades. Most of the process is carried on under water, making it less hazardous than the ordinary method.

In order that the intricate and delicate operations involved in explosives manufacturing may be carried on as safely as possible, the plants consist of a series of small buildings scattered over a large area to minimize the effects of an explosion. All possible safeguards are employed to protect the workers in one of the nation's most potentially dangerous occupations.

KNOW YOUR STATE

RECENT ECONOMIC CHANGES

Employment Rises

Employment rose by 600,000 from early May to early June, as students and others took summer jobs. Increased farm employment accounted for practically the entire rise, since nonagricultural employment showed virtually no change. Unemployment rose by more than 350,000, mainly because not all those seeking summer jobs had found employment. The demands for labor to support defense mobilization have caused drastic shifts in the composition of the labor force over the past year. Increases in the armed forces have been only partially offset by additions to the total labor force. The need for more people in the armed services and in nonfarm jobs has required substantial cuts in agricultural employment and has brought about a sizable reduction in the number of unemployed workers.

Bureau of Census data, in thousands of workers, are as follows:

	June 1951	May 1951	June 1950
Civilian labor force.....	63,783	62,803	64,866
Employment	61,803	61,193	61,482
Agricultural.....	8,035	7,440	9,046
Nonagricultural.....	53,768	53,753	53,436
Unemployment.....	1,980	1,609	3,384

There is some evidence that the expected transitional unemployment due to diversion of materials into defense production has made its appearance. Brief shutdowns in various industries began in June and continued into July as supplies shortages occurred, with automotive plants especially hard hit by metals shortages. In June 800,000 fewer workers were on the job full-time than in May; and BLS data for May (latest available) show a shortening of the work week to the level of June, 1950, chiefly because of shorter hours in nondurable-goods industries.

Inventory Interest

Since the beginning of 1950, inventories had fluctuated considerably with the onset and end of buying sprees, but at the end of May, 1951, the ratios of inventories to sales both for durable and nondurable goods had risen to the high point for the period. Durable stocks were nearly twice monthly sales in April and May, whereas the ratio for nondurable inventories to sales was 1.4 during those two months. In the early months of 1950, when business activity was climbing but there was no war influence, ratios were 1.4 and 1.2 for durables and nondurables, respectively. It appears then that a consistent buying policy is something retailers have yet to establish.

For manufacturers, the problem has been less acute. By May, their sales and stocks had increased by as much as 50 percent over the early-1950 level, but the inventory-sales ratios were still below those which prevailed during the earlier period. Their problem then was to hold sufficient stocks, rather than maintain or cut the level of inventories. Since May, however, the buying cutback of retailers has probably shifted part of the problem to the manufacturers, so that they too must now be concerned with the question of excessive stocks.

The proper level of inventories in relation to sales has been a pressing question for businessmen ever since the outbreak of war in Korea. The price wars which broke out in May re-emphasized the question, especially for the retailers, since it is believed in some quarters that price-cutting was in part a device for moving excessive stocks of merchandise.

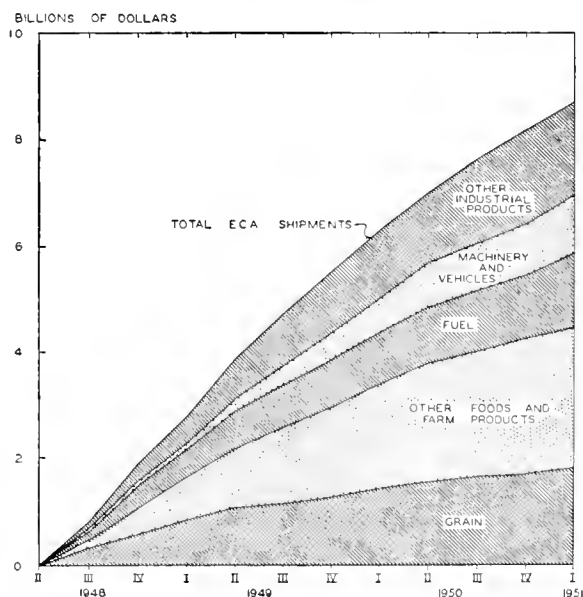
Three Years of Marshall Aid

At the beginning of April, the first three years of Marshall Plan aid to Western Europe ended. A review of those years reveals that of the \$17 billion originally estimated as the need for the projected four-year aid plan, a total of \$11.2 billion had been allotted up to April 3, 1951, with an additional \$1.6 billion requested for the final year. Of the funds already allotted, \$5.0 billion, or 45 percent, had gone to the United Kingdom and France, the two most important trading countries in the Western European bloc and the two hardest hit by war and its aftermath.

Actual shipments of commodities totaled \$8.7 billion. In the early months of ECA, food and feed made up an important part of ERP aid, but in more recent months the emphasis has been on raw materials, such as cotton, and on fuel, machinery, vehicles, and other industrial goods. As illustrated in the accompanying chart, which presents cumulative data through the first quarter, 1951, grain shipments have moved upward at a comparatively slow rate since mid-1949, whereas shipments of other farm products and industrial goods have continued to show a substantial upward movement.

Achievements of the program have been notable. At least two countries — the United Kingdom and Ireland — have already recovered sufficiently to permit suspension of further allotments of funds. The United States has obtained quantities of scarce materials for stockpiling in partial return for the credits advanced. Industrial production in the participating countries, especially in the basic industries, has been expanded considerably, relieving the acute postwar shortages. Their agricultural output has also increased, so that their dependence on imported foods and feeds has lessened. Trade restrictions have been eased among the Western European participants in the ERP and a measure of convertibility has been obtained for their currencies through the use of the European Payments Union, which is partly financed with ECA funds.

ECA SHIPMENTS



Source: Economic Cooperation Administration, Division of Statistics and Reports.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Air-Drying Industrial Finish

Rexton Finishes, Incorporated, Irvington, N. J., has developed an industrial finish that dries when exposed to air and is designed to adhere to such hard-to-finish surfaces as bakelite, zinc, magnesium, chromium, aluminum, and steel. Especially suitable for surfaces with component parts of dissimilar metals, Rexadhere is both a primer and a topcoat finish. It may be sprayed, dipped, or roller-coated, and eliminates the need for drying ovens, special metal pretreatments, and different primers for different metals.

Permanent Magnets

Sylvania Electric Products, Inc. (1740 Broadway, New York, N. Y.) has announced production of permanent magnets made of noncritical materials, rather than scarce metals such as cobalt, nickel, and aluminum. They are designed for use in radio and television receivers.

New Alloy Developed

The Copper Alloy Foundry Company, Hillside, N. J., has developed a new alloy that will eliminate the tendency of many stainless steel materials to corrode when used in plugs and valve disks. Expected to be especially useful in oil refining and the chemical industry the new alloy, V2B, is not only corrosion-resistant but is said to be three times harder than alloys ordinarily used.

Grain Moisture Meter Device

To overcome excessive galvanometer fluctuations due to nonuniformity of grain samples, a new damping mechanism that permits easier reading of moisture meter scales has been developed by the Tagliabue Instruments Division of the Weston Electrical Instrument Corporation (614 Frelinghuysen Avenue, Newark, N. J.). The device, which requires no weighing of samples, reduces pointer oscillations for quick and accurate readings even under conditions of extreme variation in moisture content.

Plastic-Lined Drum

When steel drums and pails are coated with bakelite-polyethylene, they can be used to ship a variety of materials ranging from edible foods to corrosive acids and alkalis, products usually shipped in more costly containers manufactured from special metals and other substances. The plastic interior coating of these containers, made by the Delaware Barrel Company, Inc., Wilmington, Delaware, is said to resist moisture and the action of most chemicals.

Gear-Making Process

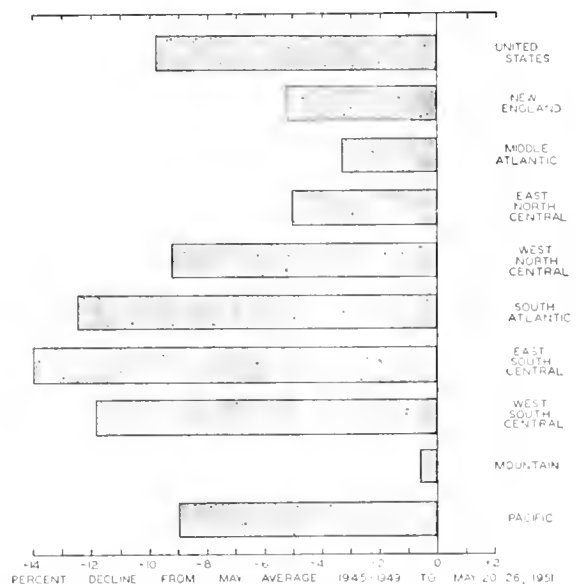
The development of a new gear-carbonization process which limits distortion to one one-thousandth of an inch per foot of diameter has been announced by the Brad Foote Gear Works, Inc., Chicago. Carbonization, which imparts hardness to gears through the application of heat, has long been used in the manufacture of gears. The new process is unique in that the heat treatment hardens the meshing surfaces of the teeth in the gears to a high degree while leaving the cores soft but tough. This allows reduction of the wear of impact on the teeth through absorption of some of the shock by the soft cores.

Decline in Farm Employment

A *Farm Labor* release of the Bureau of Agricultural Economics, Washington 25, D. C., reports that people working on farms in May numbered a half million less than a year ago and about 1½ million less than the post-war peak in 1946 and 1947. There were 11 million persons employed on farms during the week of May 20-26. Of the total, 8.7 million were operators and 2.3 million were hired workers. As shown by the chart, the total decline from the May, 1945-1949, average was 9.8 percent. The East South Central area showed the greatest drop, 14 percent, with the 5 percent decrease in farm employment in the East North Central area the third lowest sectional decline.

The release, entitled "Farm Employment a Half Million Under a Year Ago," states that in the period 1946-1948 the number of people working on farms increased, as workers in war plants and the armed forces returned to farm employment. By 1949, however, the long-time downward trend again appeared. During the war and especially after the wartime shortages were relieved, farmers purchased large numbers of laborsaving machines, which decreased the need for farm labor. In the past year, additional demands for manpower for the armed forces and for industrial production have drawn persons from farm jobs and have been a factor in reduced farm employment.

FARM EMPLOYMENT



Source: U. S. Department of Agriculture.

New DuPont Fiber

Fiber E, the newest form of rayon, is now in limited commercial production at DuPont's Old Hickory, Tenn., plant. The new product has the property of curling or crinkling into a fuzzy, wool-like fiber when treated with a dilute solution of caustic soda. When combined with yarns of other fibers it imparts a carved effect to cut, brushed, and loop-pile fabrics, and will produce a two-tone color effect from a single dye bath.

AVIATION IS GROWING UP

WILFRED CARSEL, Chief, Research and Analysis Branch
and

JESSE STERNBERGER, Transportation Economist
Office of Airports, Civil Aviation Administration

Civil aviation is very much in the news these days. Air traffic is booming. New types of equipment, including jet and turbo-prop propelled aircraft and helicopters, are being developed. The 1951 National Airport Plan, just released by the Civil Aeronautics Administration (CAA), lists 4,945 airports for development, 1,100 of them large enough to accommodate airline aircraft. New airway aids utilizing the very high frequency band are being installed to increase safety of operations. Subsidies are being separated from airmail payments. These and similar developments add up to two conclusions: (1) The aviation industry is growing up; it is definitely emerging from the infant industry category. (2) Its adolescence will be lusty, marked by continued experimentation and growth.

Growth in Airline Traffic

The growth in airline traffic during the last 2½ years is well known. Passenger volume, after being relatively stable between 1946 and 1948, began to increase sharply in 1949 when it registered a gain of almost 2,000,000 passengers over 1948, or almost 15 percent. In 1950 there was another gain of 15 percent over 1949. Air cargo traffic increased even more sharply, rising more than 50 percent from 1948 to 1950. Airmail volume rose almost a fourth during the same period.

With the impact of the mobilization program, airline traffic shot to new heights. During the first three months of 1951, passenger volume increased 49 percent over the first quarter of 1950, express ton mileage rose 71 percent, freight ton mileage 16 percent, and mail ton mileage 40 percent. The growth would have been greater, particularly in freight, were it not for lack of equipment on various route segments. Most of the carriers showed a first-quarter profit for the first time in their history. The spectacular growth during early 1951 should not, however, obscure the fact that airline traffic was in a period of rapid expansion for some time prior to the advent of the mobilization program.

Tapping the Travel Market

One of the solid bases for growth was the extension of routes. Between 1948 and 1950, route miles served by domestic airlines expanded from 62,000 to 77,000. The number of communities served increased from 369 to 531. Much of this increase was due to the rapid growth of the feeder or local service airlines, which now operate over 20,000 route miles and serve either solely or in conjunction with trunk carriers some 360 cities and towns. There were 960 aircraft in service in 1950, almost 10 percent more than in 1948, and the increase in available seat-miles was over four times as great. The ability of the airlines to offer service to and from more places and to offer more frequent schedules obviously increased their power to tap the air travel market.

At the same time the composition of the air fleet has been changing in favor of larger and speedier aircraft. Now four-engine aircraft constitute over two-fifths of the fleet, as against one-eighth in 1947. The growing use of four-engine aircraft as well as the introduction of faster twin-engine models enlarged the speed advantage of air-

craft over other modes of transportation. Growth of traffic, in turn, permitted inauguration of more non-stop flights between major traffic points, thus adding further to the attractiveness of airline travel.

The airlines also made major strides in overcoming their chief handicap, namely, the impression that airline travel is unreliable. They cut the rate of flight cancellation almost in half between 1947 and 1950, to 2.8 percent. Additional installations of various navigational aids is expected to further increase schedule regularity. Better equipment, airports, and navigational aids also resulted in a fine safety record. In 1950 the accident rate was 1.2 passenger fatalities per 100,000,000 passenger miles as against 3.2 in 1947.

Another outstanding development during 1950 was the growth of the air-coach operation of the domestic scheduled airlines, which carried 1,267,381 revenue passengers for a distance of over a billion passenger miles. It must be remembered that the first scheduled coach-type service was begun only in November, 1948, when Capital Airlines offered a run between New York and Chicago and that so far only 33 cities have this type of service. The fact that air coach service already produces almost 8 percent of the domestic scheduled airline passenger traffic therefore shows the appeal of this type of low-cost airline transportation. Partly compensating the lower rates charged on this service were a higher revenue passenger load factor and a longer average length of passenger haul.

In addition to the regular airline coach passengers, there were 461,340 coach passengers carried during 1950 by irregular or non-scheduled carriers, of which approximately 185,000 were in domestic traffic. Although the irregular carriers pioneered in this aspect of airline service, their status has been in considerable doubt for some time. Last March, the Civil Aeronautics Board (CAB) ruled that such airlines be limited each to three flights a month over major traffic segments and to eight flights between all other points. The non-scheduled operators, protesting that this order was a "death sentence" which would drive almost all of them out of the passenger business, took their case to court and obtained a stay order. They also took the case to Congress with the result that the Senate Small Business Committee has formally called upon the CAB to cancel its ruling and to permit the irregular carriers to "operate in a manner which would not jeopardize their economic strength." On the other hand, the regular airlines have been insisting on strong action against the irregulars, whom they accuse of "skimming the cream" of the market by concentrating their activities on a number of high-density route segments. The final decision is yet to be made, but it appears fairly probable that the irregulars will get a new lease on life and expand their operations.

Air Cargo and Mail Operations

Rapid as has been the increase of airline passenger travel it has been overshadowed by the growth of air cargo. In 1945 the total volume of air cargo was 22,000,000 ton miles, of which 81 percent was air express, the air counterpart of railway express. As in the case of the

coach passenger traffic, a number of independent, non-scheduled operators with wartime experience and war surplus planes began offering a relatively cheap freight service. The regular airlines soon became interested. In 1950 domestic scheduled air cargo volume amounted to 222,000,000 ton miles, over ten times the traffic at the end of the war. About two-thirds of this volume was carried by the regular passenger lines and over 75 percent of the volume was air freight.

Despite the rapid growth in air cargo this field has not received nearly the attention that passenger traffic has. In the smaller cities and towns, the air cargo market is for all practical purposes still untapped. A reversal of this trend may be foreshadowed by two recent developments. Slick Airways has recently ordered six Douglas DC-6A Liftmasters, cargo versions of the DC-6, the first postwar aircraft to be purchased by any of the cargo carriers; and American Airlines has decided to inaugurate an aggressive sales campaign in an effort to become the leading air cargo carrier.

Airmail, too, has been growing at a rapid rate. Following the drop in airmail with the cessation of World War II, there has been a steady rise in volume year by year, and the peak volume achieved during 1945 will undoubtedly be equaled and surpassed in the near future. One of the outstanding developments in the airmail field has been the use of the helicopter. Two helicopter services are in operation, centering at Los Angeles and Chicago, which utilize eleven helicopters and serve 71 points. During 1950 they carried 3,500 tons of airmail, or 5 percent of the national total.

Airmail payments have been one of the most controversial issues in the whole aviation field. In the past the Board has lumped airmail payments and subsidy grants together. This practice has been criticized primarily on the ground that the subsidy part was "hidden." After extensive hearings, Senator Edwin C. Johnson introduced a bill to separate subsidies from mail pay. On July 10 the CAB announced that it would follow the general policy of this bill prior to its enactment into law. Under the new policy, the government will pay airlines fixed rates for services rendered in handling airmail and will treat subsidies separately as grants to be paid according to need.

New Developments and Problems

Of outstanding significance to the future of aviation have been the rapid strides in development of the jet and turbo-prop propelled aircraft and the helicopter. The former, it is anticipated, will have important repercussions on the long-haul travel market; the latter will enable air transportation to compete with surface carriers for the short-range travel market. The airplane of today is generally not competitive with surface transportation for distances less than 100 miles, the mileage bracket which accounts for the largest volume of passengers. The helicopter, by using landing areas close to or in the center of a city, is expected to compete effectively with other public carriers for the short-range travel market.

Another factor in the growth of airline transportation has been the increasing cooperation among airlines. The most recent development is the system of equipment interchange between airlines, which is strengthening the carrier route networks and enables them to give better and faster service. In all probability, such arrangements are but the faint beginnings of things to come. Both the CAB and leading elements in the industry are apparently of the opinion that a series of mergers is desirable to aid the industry in cutting costs and improving operations.

Although non-airline aviation has not attracted as much attention as airline transportation, this area too has witnessed notable developments. One of these has been the growing importance of smaller aircraft in industry and agriculture. According to the latest information, 57 percent of all non-air-carrier aircraft are owned by various industries and trades, including farmers, ranchers, and others engaged in agriculture, and a substantial portion of the remainder are also used for business purposes. Industrial and business flying hours have practically doubled since 1946, keeping pace with the growth in air-carrier revenue miles flown. The so-called "decline" in private flying activity has been only in instructional flying, which experienced a mushroom growth immediately after the war because of the veterans' training program.

The increased use of smaller aircraft in industry and agriculture has taken place despite the fact that the airplanes available were of the general passenger type. Recognition of the need for aircraft adapted to particular uses has already resulted in the development by the CAA of an airplane designed exclusively for agricultural flying.

These developments point up the need for continuous appraisal of available airport and airways facilities and of government programs for meeting the requirements of civil aviation. During the past five years, great strides have been made in improving facilities and in implementing the common system of air traffic control and navigational aids. Unfortunately, the Federal funds available for such purposes are insufficient to meet requirements at the present time. The CAA airport-aid program, for example, is limited to those projects of the highest priority which clearly contribute to the defense effort.

Peace Is Not Inevitable

(Continued from page 2)

we have to act like bullies. There can be no relaxation of our determination to fight if need be. But with that determination must go an equal determination to act at all times as reasonable men, who decide what is needed in calm appraisal of facts, and not in the blind passion of hate, nor in the pride and arrogance of the power they control.

To achieve peace, we have to recognize that the conditions for peace grow out of cooperative relations, not out of armed camps bristling with the means of destruction. A situation dominated by move and countermove, pressure and counterpressure, propaganda and indoctrination can never lead to peace. So long as each strives for advantage at the other's expense, we must continue to be faced starkly with a situation in which power dominates.

No change in these conditions is likely to occur except through a slow process of working things out in a spirit of give and take.

Concessions can be made on both sides, in recognition of the futility of war for victor as well as vanquished. As it is now in Korea, so must it be in World War III.

Still, progress will depend upon whether future agreements and policies are designed to provide advantages for all. The understanding, tolerance, and trust that are essential to cooperative relations can be realized only when such responses are rewarded. The possibilities of a real solution lie in the positives of mutual gain, not in the negatives of comparative damage.

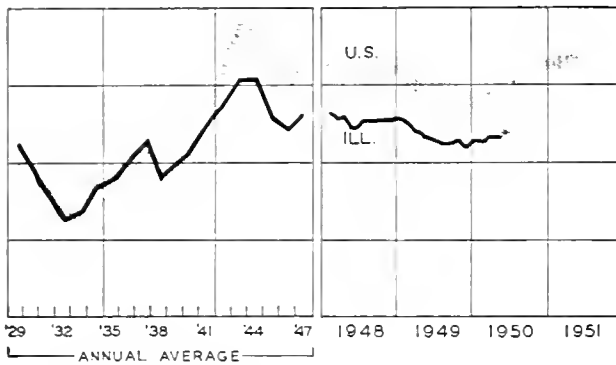
Can the trend of world affairs take such a turn? Peace talks in Korea may afford some hope. They are not themselves the answer.

VLB

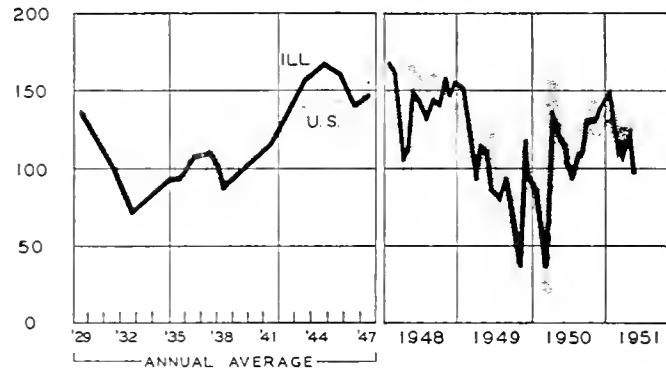
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

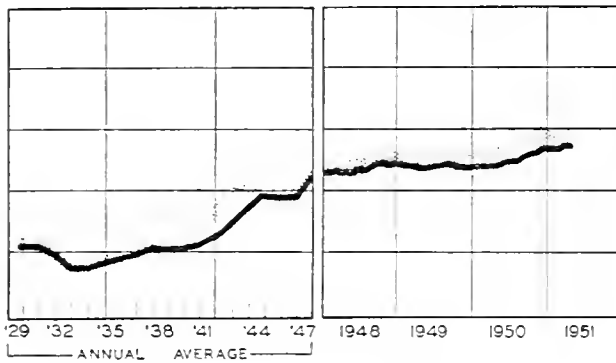
EMPLOYMENT—MANUFACTURING



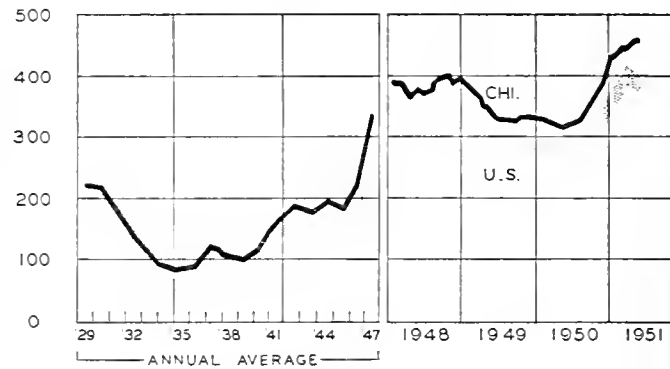
COAL PRODUCTION



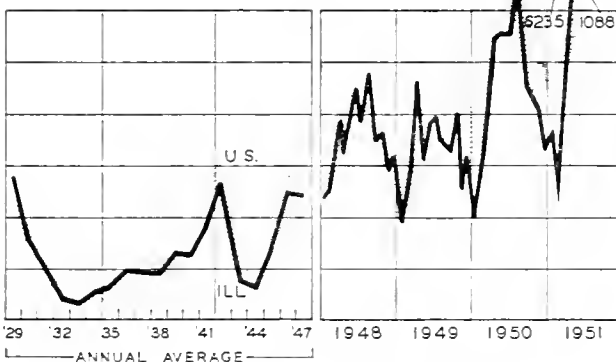
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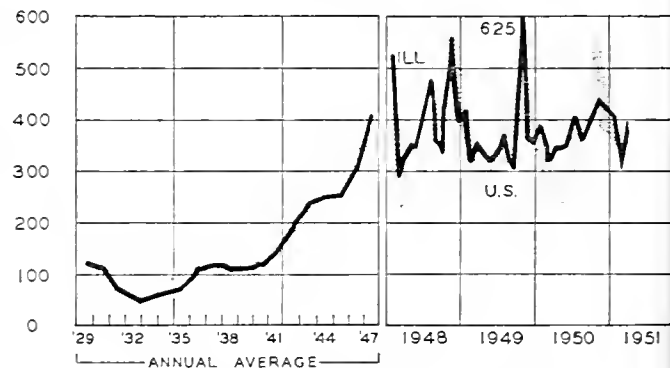
BUSINESS LOANS



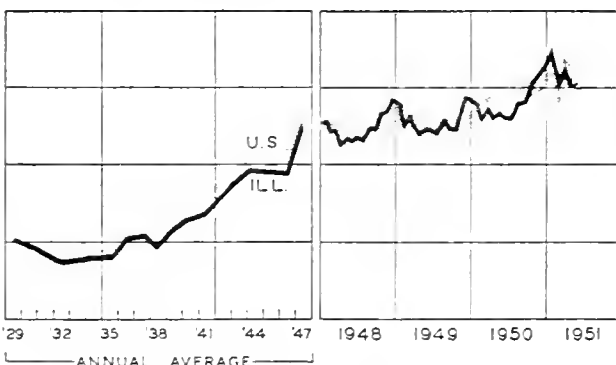
CONSTRUCTION CONTRACTS AWARDED



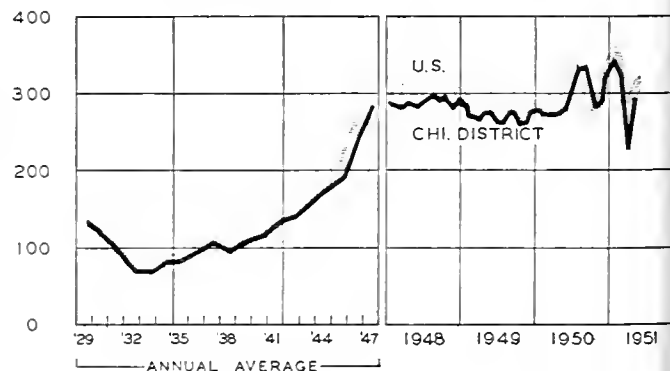
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



* Illinois figures being revised.

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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VOLUME VIII

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HIGHLIGHTS OF BUSINESS IN AUGUST

The Federal Reserve Board index of industrial production in August was expected to regain some of the ground lost in July, when the index dipped 9 points to 213 percent of the 1935-39 average. Part of this dip, however, had been due to plant-wide vacations in a number of industries. Sales resistance of consumers, which had accounted for production cutbacks in a number of consumer goods industries, appears to have diminished somewhat in late August, with increased sales reported in textiles and appliances.

Despite this reduction in activity, shortages continue to plague the economy. With military procurement still rising, there does not appear to be enough raw material to meet all requirements. As a result, allotments of steel, copper, and aluminum to producers of consumer durable goods in the fourth quarter are slated to be substantially below third-quarter levels. On the average, these producers will be allowed to use only 58 percent as much steel, 54 percent as much copper, and 46 percent as much aluminum as in their base period. Third-quarter allotments had been 70 percent, 60 percent, and 50 percent, respectively.

Employment Picture Stable

The employment picture showed little change in August. Unemployment continued at the postwar low of 1.6 million, and the 62.6 million employed in the month was only 100,000 above the July figure. Employment breakdowns reveal a continuing migration of farm hands to the factories. Following the usual seasonal pattern, nonfarm employment gained 300,000 in the month as the number working on farms dropped 200,000.

The total civilian labor force, the sum of employed and unemployed seeking work, was about 650,000 below the figure for last August. However, considering the 2.2 million increase in the size of the armed forces during the intervening period, a substantial gain in total working manpower is evident.

Price Trends Mixed

Wholesale and farm prices continued to decline in August, though at a much slower rate. The comprehensive Bureau of Labor Statistics index of wholesale prices was down only 0.5 percent in the month as compared with a drop of 1.3 percent in July. Declines of 2 percent and more in the prices of lumber, textiles, and livestock were

almost universal, higher prices for grains, foods, and chemicals.

Farmers received lower prices for their products for the sixth consecutive month. The index of prices received fell two points during the 31-day period ended August 15 to 292 percent of the 1910-14 average. Prices for most crops except fruits were lower during the month.

The index of the cost of living of moderate income families in urban areas edged up 0.2 percent in the month ended July 15 to an all-time high of 185.5 percent of the 1935-39 average. Higher costs of food and rent were mainly responsible for the increase. Consumers' prices, on the average, are now 12.1 percent above June, 1950, when the Korean fighting began.

Construction Expenditures Up Slightly

Outlays for new construction in August were up 1 percent over July to \$2.8 billion. As in previous months, reduced spending on new homes and stores was more than offset by higher industrial and public expenditures, both military and civilian. On a year-to-year basis, construction expenditures were only 1 percent below last August, though considerable changes have taken place within the aggregate. Private home building, for example, was down one-third from last year's rate whereas public construction activity was up by almost the same proportion.

Construction so far this year is far ahead of last year. About \$19.5 billion of new construction was put in place during the first eight months of this year as against \$17.5 billion in the corresponding period of last year. In terms of physical volume, however, the increase is much less, and the trend this year has been fairly level as contrasted with the sharply rising trend last year.

Manufacturers' Sales, Orders Down

Indicative of the summer slump in business activity is the drop of 5 percent in manufacturers' sales from June to July on a seasonally adjusted basis; unadjusted, the drop was 11 percent. The biggest declines took place in motor vehicles, machinery, and lumber. Though new orders placed with manufacturers declined more than 1 percent in July, they still exceeded deliveries in the month, resulting in a further rise in factory backlogs. The \$55.4 billion of unfilled orders in manufacturers' books at the end of the month was more than twice the amount for July, 1950.

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Controls for Emergency Use

The new mobilization controls bill was passed July 30, just a day before the temporary extension of the old bill expired. President Truman had to sign the bill in order to prevent the lapse of programs whose accomplishment is dependent upon the controls it authorizes.

Within a month, the President called upon Congress to repeal what he called the three "worst" provisions of the new Act. The worst feature of the Act, however, is not in any of its provisions but in the indication it provides of the lack of an adequate and consistent policy for dealing with the "emergency" of the cold war.

Last month, it was pointed out in these pages that the international situation could be dealt with effectively only in terms of a stable policy that would enable us to work continuously toward basic goals in international affairs. At the beginning of the year, attention was called to the need for a similar policy on the domestic front, a philosophy of control based on underlying needs rather than the excitement of the moment. What we have in the new control bill, and in other recent Congressional action, is a demonstration that both policies are still lacking.

Specific Points of Controversy

The lines of controversy in Congress were those that had already been well defined in recent years — the forces of the Administration against the coalition of Republicans and Southern Democrats. The Administration requested and fought hard for stronger price controls; the Congress not only refused to add new powers but restricted those already in force.

The three provisions President Truman objected to so strenuously are amendments that weakened existing price controls. All three of them he condemned as concessions to special groups, which would prevent effective price stabilization and thus hamper the rearmament program. The first was the amendment sponsored by Senator Capeheart (R., Ind.), which prohibits setting of ceilings lower than pre-Korean prices plus cost increases that occurred in the following 13 months. The second amendment, sponsored by Representative Herlong (D., Fla.), guarantees wholesalers and retailers the full percentage markups they customarily received before the Korean war. The third amendment, by Senator Butler (R., Nebr.) and Representative Hope (R., Kans.), prohibits the use of quotas on slaughtering for various meat processors, such quotas

having been established to keep meat in usual channels of processing and distribution.

All of these measures, President Truman pointed out, favor the profit positions of important producer groups. The third, moreover, tends to undermine control itself, because the higher prices will be obtained by diverting supplies to purchasers who are willing to violate price ceilings.

All of these measures were held to be unnecessary in that profits were considered high enough without the higher prices allowed. The opposed view that gain in dominance in Congress is expressed in the fact that the first of these amendments is specifically an attack on profits control as distinguished from price control. It presumably corrects discrimination against industries which, like the auto industry, were not permitted to raise prices to cover cost increases because their profits were high.

In requesting the repeal of these three amendments, President Truman did not again refer to the fact that the original control act was too weak to provide a sound basis for effective stabilization. On the contrary, he stated: "The powers granted in that act were generally sufficient to do the job." In this connection, however, it may be worth pointing out again that the rapid price increases of last winter were not due to the growth of military expenditures; and the relative stability of recent months was not due to controls but was merely the aftermath of earlier excesses. The Administration's refusal to recognize that a moderately deflationary movement was under way tended to prevent its plea for strong anti-inflationary measures from carrying conviction.

Weaknesses of Legislative Control

An attitude of skepticism was revealed by many Congressmen, and some displayed a studied distrust of the Administration's policies. Many who hold this point of view argue that it is necessary for Congress to maintain strict limitations on executive action in order to prevent arbitrary and ill-considered steps from being taken. The price control action of last winter is now frequently thought of as too sweeping, and perhaps overly enthusiastic. More recently, the flat refusal of the Federal Reserve to ease consumer credit curbs when durable goods were, for the time being at least, in ample supply is cited as a case in point. In the new Act, Congress accordingly set less stringent limits on the Federal Reserve's power. The Congress felt justified in thus intruding into the sphere of administrative action, because it deemed such action necessary to prevent an abuse of power by an agency with an extreme anti-inflationary bias.

The trouble with Congressional attempts to retain close control of administrative action is that Congress is itself too unstable and lacking in perspective to do the kind of job called for in a situation like the present. It is swayed to extremes by each change in the passing scene. Last winter, it made every effort to force the Administration to take the strongest possible action under the price control authority the Congress had itself initiated the summer before. A year ago it pressed the Federal Reserve to tighten the curbs on consumer credit until they hurt. Now that its view has changed, it insists on complete reversal. A week after peace talks began in Korea, Senator Aiken (R., Vt.) said that an armistice would wipe out the need for controls.

The Congress is by its nature a body responsive to the pressures of the moment. It is split into factions and blocs, and is constantly under pressure from lobbyists.

(Continued on page 6)

MAIL ORDER MERCHANDISING

Between 1939 and 1948 the nation's mail order houses increased their catalog sales by almost a billion dollars, and the number of mail order firms in operation more than doubled. The 880 firms reported in the 1948 Census of Business had an income of \$1.5 billion from mail orders alone, with additional billions of dollars in sales through retail outlets. Although the Census does not break down statistics on mail order operations by states in order to avoid revealing the figures of individual companies, Illinois has long been the acknowledged leader in the field.

Until mail order retailing made its appearance on the merchandising scene, New York City was the center of the nation's retail trade and the headquarters of nearly all department store and variety store chains. Today Chicago shares on equal terms with New York in the direction of retail operations, largely because of its status as the center of the nation's thriving mail order business.

The four largest mail order houses in the country, Sears, Roebuck and Company, Montgomery Ward and Company, Spiegel, and Alden's, are located in Chicago. Sears and Ward rank second and third among American merchandising houses. Their yearly sales together approximate \$4 billion, more than the combined sales of all other food and merchandise chains with the exception of the A and P, the nation's leading retailer.

Selling by Catalog

The mail order system of distribution is ideally suited to supply the needs of the nation's large rural population. Mail order catalogs brought a range of selection to the isolated farm family which the neighborhood store with its limited capital could not furnish.

Guided by the catalog, millions of customers place orders every year which make the mail order houses one of the biggest customers of the United States post office. From the time that the government classified mail order catalogs weighing 16 ounces and over as parcel post, their size steadily increased.

Most companies issue large general catalogs twice a year, as well as two semiannual sale catalogs and a Christmas book. Their preparation is one of the biggest publishing enterprises in the world. Almost all are printed in Chicago, requiring the combined facilities of some of the world's largest printing plants.

Pioneered by Montgomery Ward

General mail order merchandising was conceived and first put into practice by Montgomery Ward, a traveling salesman who had recognized the vast unsatisfied market represented by the American farmer. He founded Montgomery Ward and Company in Chicago in 1872 with the idea of selling for less by mass buying, cutting the cost of sales, and making less profit on each item but increasing aggregate profit by selling more items.

The National Grange, then rapidly growing in influence throughout the nation's rural communities, selected

the company as its official supply house, and was largely responsible for the launching of a new type of business that might not otherwise have had such immediate success. Orders poured in and the original mail order catalog was expanded from 24 to 152 pages in two years.

In 1921, after fifty years of exclusively mail order operation, Ward opened a retail outlet in Chicago, the first of its wide chain. Today, in addition to more than 600 retail stores, the company has eight mail order houses throughout the country besides the parent Chicago plant. Almost all of the merchandise is centrally purchased, with the principal buying offices in Chicago.

Sears, Roebuck — Largest in the Field

Richard Sears entered the mail order business in Minneapolis with a mail order watch concern. In 1886 he moved to Chicago where he met A. C. Roebuck, and a short time later they founded a general merchandising mail order house, naming it Sears, Roebuck and Company. The growing popularity of mail order retailing caused their sales to jump from \$11 million to more than \$60 million between 1900 and 1910. In 1925 the company opened its first retail store in Chicago and continued to expand retail operations until today Sears' retail stores contribute the major share of its total business.

Net sales for the firm in 1950 amounted to \$2.6 billion, a new record high for the company, and double the total sales of Montgomery Ward, although the latter compares well in the operation of mail order plants alone.

Sears obtains about 20 percent of its merchandise from the 18 factories which it owns and forty others in which it has an interest. In contrast, Ward owns only three plants, which supply a minor portion of its goods.

Other Illinois Firms

Spiegel's mail order business was founded in Chicago in 1904. It was not until 1944 that the company entered the chain store field, but by the end of 1950 there were 153 Spiegel stores in operation. Net sales for the corporation in 1950 were \$143 million, and the mail order division has continued to make steady gains in sales.

Another large mail order firm located in Chicago is Alden's, Inc. Established as the Chicago Mail Order Company in 1889, Alden's sells in both retail stores and by catalog, primarily serving the retail market of the rural Midwest. With sales running about 3 percent of Sears, Roebuck and Company, it is the fourth largest firm in the mail order field.

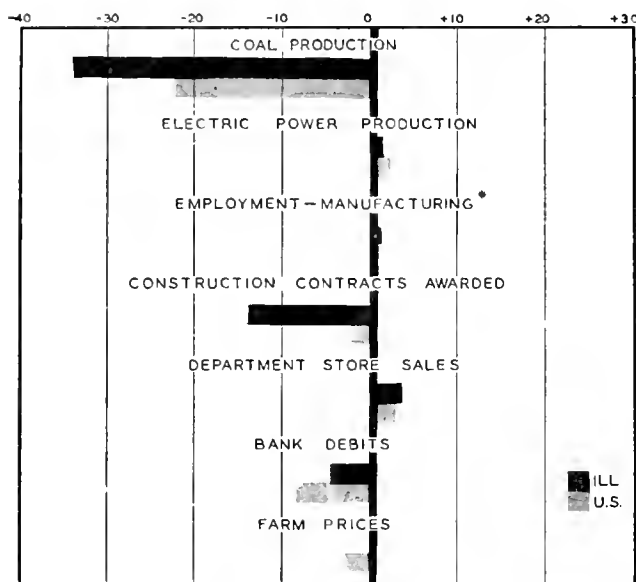
Predictions that mail order selling would become obsolete when the automobile gained widespread use never materialized. The mail order device is now being used to sell a wide variety of products made by small-scale producers throughout the country. Mail order marketing is no longer confined to the rural population, and today many large department stores are sending out increasingly ambitious mailing pieces to provide their customers with the timesaving convenience of the mail order method.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes June, 1951, to July, 1951



* May, 1951, to June, 1951

ILLINOIS BUSINESS INDEXES

Item	July 1951 (1935-39 = 100)	Percentage Change from	
		June 1951	July 1950
Electric power ¹	288.3	+ 0.7	+12.1
Coal production ²	70.0	-34.0	-24.9
Employment—manufacturing ³	n.a.	+ 0.5 ^a	+ 5.1 ^b
Payrolls—manufacturing ³	n.a.		
Dept. store sales in Chicago ⁴	225.4 ^c	+ 3.4	- 9.2
Consumer prices in Chicago ⁵	190.9 ^d	+ 0.4	+ 6.5
Construction contracts awarded ⁶	414.4	-13.4	-24.8
Bank debits ⁷	334.0	- 4.5	+16.7
Farm prices ⁸	274.6	0.0	+12.5
Life insurance sales (ordinary) ⁹	211.5	+ 2.3	+14.5
Petroleum production ¹⁰	233.0	+ 3.6	+ 1.8

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Repts.; ⁹ Life Ins. Agency; ¹⁰ May to June, 1951. ^b June, 1950, to June, 1951. ^c Seasonally adjusted. ^d New series. Old series index for July was 192.3. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	July 1951	Percentage Change from	
		June 1951	July 1950
Personal income ¹	251.6 ^a	+ 0.2	+13.0
Manufacturing ¹			
Sales.....	258.0 ^a	- 5.7	+ 5.9
Inventories.....	40.5 ^{a, b}	+ 1.2	+35.9
New construction activity ¹			
Private residential.....	11.1	+ 0.9	-27.3
Private nonresidential.....	11.2	+ 2.8	+25.3
Total public.....	11.2	+ 6.2	+37.1
Foreign trade ¹			
Merchandise exports.....	14.2	- 9.4	+53.1
Merchandise imports.....	10.7	- 4.0	+26.0
Excess of exports.....	3.5	-19.6	+349.2
Consumer credit outstanding ²			
Total credit.....	19.1 ^b	- 0.6	+ 4.6
Installment credit.....	12.9 ^b	- 0.4	+ 2.4
Business loans ²	18.9 ^b	- 1.4	+36.2
Cash farm income ³	32.4	+25.8	+10.6
Indexes (1935-39 = 100)			
Industrial production ²			
Combined index.....	213 ^a	- 4.1	+8.7
Durable manufactures.....	263 ^a	- 4.4	+11.9
Nondurable manufactures.....	190 ^a	- 4.0	+ 5.0
Minerals.....	157 ^a	- 5.4	+ 9.0
Manufacturing employment ¹			
Production workers.....	166	- 0.6	+ 6.1
Factory worker earnings ⁴			
Average hours worked.....	108	- 1.0	- 0.2
Average hourly earnings.....	267	- 0.2	+ 9.3
Average weekly earnings.....	288	- 1.2	+ 9.0
Construction contracts awarded ⁵	584	- 2.1	- 2.9
Department store sales ²	309 ^a	+ 2.3	-14.6
Consumers' price index ⁴	186 ^c	+ 0.2	+ 7.8
Wholesale prices ⁴			
All commodities.....	223	- 1.3	+10.2
Farm products.....	255	- 2.3	+10.2
Foods.....	235	- 0.2	+ 8.5
Other.....	208	- 1.1	+11.3
Farm prices ³			
Received by farmers.....	275	- 2.3	+11.8
Paid by farmers.....	226	0.0	+10.2
Parity ratio.....	104 ^d	- 2.8	+ 1.0

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ^a Seasonally adjusted. ^b As of end of month. ^c New series 185.5; old series 185.8. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1951					1950	
	Aug. 25	Aug. 18	Aug. 11	Aug. 4	July 28	Aug. 26	
Production							
Bituminous coal (daily avg.)	thous. of short tons..	1,800	1,715	1,696	1,668	1,712	1,834
Electric power by utilities	mil. of kw-hr.	7,077	7,164	7,070	7,003	7,005	6,346
Motor vehicles (Wards)	number in thous.	131,949	122,995	95,061	115,267	123,330	171,867
Petroleum (daily avg.)	thous. bbl.	6,140	6,159	6,151	6,121	6,125	5,629
Steel	1935-39 = 100	224.8	227.3	226.4	227.3	227.1	195.7
Freight carloadings	thous. of cars	839	829	809	813	820	837
Department store sales	1935-39 = 100	279	268	252	254	232	288
Commodity prices, wholesale:							
All commodities	1926 = 100	176.8	177.2	177.8	177.6	178.0	165.6
Other than farm products and foods	1926 = 100	166.0	166.1	166.3	166.9	167.7	156.0
28 commodities	August, 1939 = 100	324.4	322.8	327.0	326.8	327.6	316.1
Finance:							
Business loans	mil. of dol.	19,503	19,379	19,170	19,124	18,958	14,512
Failures, industrial and commercial	number	130	158	149	171	184	176

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Recovers from July Drop

Industrial production during August recovered somewhat from the July vacation slump which cut the Federal Reserve Board index from 222 to 213 (1935-39 = 100). Preliminary estimates by the FRB indicate that the August upturn failed to take the index back to the level of the first half of the year. Steel output slackened slightly during August, especially toward the end of the month as mills in the Buffalo, New York, area were hindered by a railroad dispute. Automotive production rose from July, to an estimated 566,000 vehicles.

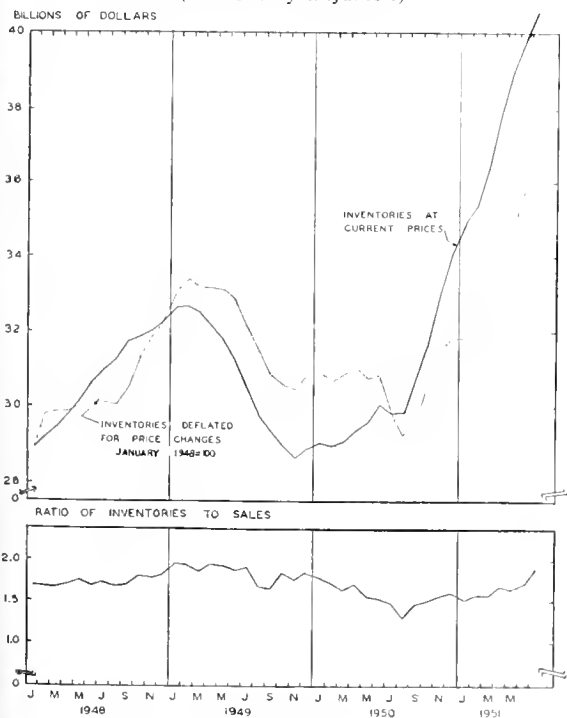
Sales Off in July

Sales were slower during July both at the manufacturing level and at the retail level. Manufacturers' sales were down 5 percent from June on a seasonally adjusted basis to \$21.5 billion. The biggest declines occurred in such durable goods as automobiles, machinery, and lumber. Nondurables were off 2 percent from the previous month. Inventories held by manufacturers rose again, to \$40.5 billion, but at a much slower rate than in previous months. With sales down, the inventory-sales ratio rose to 1.88, the highest point in two years.

The sharp increase in the dollar value of stocks on hand is somewhat misleading, however. When inventory values are adjusted for price changes over the period since January, 1948, a different picture appears. Although additions to physical stocks have been substantial in the last year, the accompanying chart shows that the advance was much less than was the case with dollar value.

Dollar sales at retail were down more than 8 percent from June to July, but after seasonal adjustment sales remained practically unchanged. There was a slight shift from durable goods, as automobile sales dropped, into nondurables, especially wearing apparel.

MANUFACTURERS' INVENTORIES
(seasonally adjusted)



Source: U. S. Dept. of Commerce.

Small Shifts in Employment

August employment data released by the Bureau of the Census indicate only small changes from mid-July to mid-August. The civilian labor force, which decreased by 174,000 over the month, apparently had begun its slide from the annual summer peak. Employment was raised slightly as nonfarm jobs were filled with workers from the farms and from among the unemployed. Unemployment, at 1,578,000, was the lowest since October, 1945.

Census data, in thousands of workers, are as follows:

	August 1951	July 1951	August 1950
Civilian labor force	64,208	64,382	64,867
Employment	62,630	62,526	62,367
Agricultural	7,688	7,908	8,160
Nonagricultural	54,942	54,618	54,207
Unemployment	1,578	1,856	2,500

Price Movements Mixed

Prices during the latest periods reported continued to show small diverse changes. The BLS index of 28 basic commodity prices dropped 1.0 percent during August as a result of sizable declines in import, farm, and industrial prices. Prices of these commodities have been falling almost steadily for six months. At 323 percent of the August, 1939, level on August 31, sensitive product prices were much lower than the peak 390 of last February, and had fallen back to the level of October, 1950.

The comprehensive BLS index of wholesale prices, at 176.7 (1926 = 100), down 0.5 percent from July 31 to August 28, has shown a downward trend since last March when the index reached 183.9. Chief factor in the decline has been the substantial fall in prices for farm products, which have slid from 204.6 to 188.7 as 1951 crop prospects improved.

Income Payments Rise Sharply

The upsurge in economic activity during 1950, first because of a general expansion and later because of the Korean hostilities, carried income payments to individuals to a new high of \$217.2 billion, 11 percent over 1949, and 7.5 percent over the earlier boom year of 1948. Every state in the Union shared in the advance, as did every segment of the economy. Increases among the states varied from 4 percent for Oklahoma to 23 percent for Montana. Among the various components, gains varied from 6 percent for agricultural workers to 13 percent for manufacturing employees and 14 percent for government workers. Per capita income rose by more than \$100 to \$1,436, with the range in income extending from \$698 (Mississippi) to \$1,986 (District of Columbia).

Over the ten-year period from 1940 to 1950, total income in the United States rose from \$75.8 billion to \$217.2 billion, an increase of 186 percent. A 219 percent increase in manufacturing payrolls and a 196 percent advance in trade and service income have been the chief factors in the gain. On the basis of increases in the consumers' price index from 1940 to 1950, real income rose 67 percent.

National Product Rise Slows

Gross national product rose by \$7.1 billion during the second quarter to \$325.6 billion at the end of June, the rise being only about half the increases during the preceding two quarters. In the main the slower rate of advance reflected a sizable cut in personal consumption expenditures which partially offset increases in the other

GROSS NATIONAL PRODUCT OR EXPENDITURE

(seasonally adjusted, billions of dollars at annual rates)

	2nd Qtr. 1951	1st Qtr. 1951	2nd Qtr. 1950
Gross national product	325.6	318.5	275.0
Personal consumption	201.7	208.2	188.7
Durable goods	25.9	31.5	26.6
Nondurable goods	109.5	111.5	100.4
Services	66.2	65.2	61.6
Domestic investment	63.5	59.6	47.9
New construction	22.3	23.9	21.4
Producers' durable equipment	26.7	26.5	21.4
Changes in business inventories	14.4	9.3	5.2
Nonfarm inventories only	13.3	8.1	4.4
Foreign investment	.5	-2.3	-1.6
Government purchases	60.0	52.9	40.1

INCOME AND SAVINGS

National income	n.a.	269.4	230.6
Personal income	250.0	244.1	217.1
Disposable personal income	222.8	217.5	197.5
Personal saving	21.1	9.3	8.9

components of GNP. Consumption expenditures were cut despite the fact that goods remained plentiful; and this quarter, for the first time since the beginning of the rearmament program, there was a definite shift toward defense expenditures. Spending for durable goods dropped sharply, for nondurables only slightly, as consumers added an estimated \$11-\$12 billion to their savings.

The inventory accumulation which took place during the quarter accounted for the whole of the \$3.9 billion increase in gross private domestic investment. Some of the addition to stocks was caused by lagging retail sales, but much of it represented more work in progress on government orders. Within the "new construction" component of domestic investment, there has been a substantial shift from residential nonfarm building (down \$2.2 billion during the second quarter) to other construction (up \$0.7 billion).

Rearmament Program Expands

Some idea of the magnitude of the defense mobilization program can be gained from the President's midyear economic report. By mid-1951 total security expenditures had reached an annual rate of \$35 billion, almost twice as large as a year ago in terms of constant prices. By the

end of this year, defense costs are expected to reach \$50 billion and by mid-1952, \$65 billion. The 6 percent of GNP absorbed by national security a year ago has been swelled to 11 percent now, and is expected to go to 15 percent by the end of the year and to a peak of 20 percent by the end of June, 1952. By comparison, the peak of our effort in World War II, in 1944, called for almost half our total gross national product, as shown in the accompanying chart.

The expansion of defense spending, which has so far meant little inconvenience for the consumer, will probably mean actual shortages in some lines during the coming year; but according to present estimates of defense costs, the squeeze should be off by the middle of next year, barring other Koreans. At present, most of the funds budgeted for rearmament are being devoted to United States forces; by next year substantial help is expected to be available for our allies.

Controls for Emergency Use

(Continued from page 2)

special interest groups, and others who offer rewards or threaten penalties for specific actions. In this atmosphere, decisions tend to be the products not of logic but of organized transfers of support and advantage. Votes are not decided on the floor, but behind the scenes, as each bloc decides what concessions it will make in order to gain the support it needs to put its own measures across. To gain passage of a bill under these conditions, a public need has to be obvious to all.

Given this apparent lack of statesmanship, what is unfortunate in administrative behavior is not that the "Bureaucrats" act in arbitrary disregard of the public interest, but that they so easily give way to the pressure brought to bear through interested groups in Congress. The redeeming feature of the Federal Reserve position on consumer credit control is the courage it displayed under attack, knowing that the attack was based upon pressures which were themselves but the outgrowth of a temporary shift in the business trend.

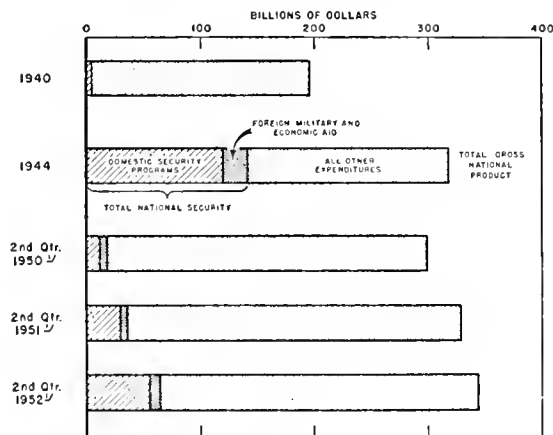
The fact is that the new controls Act leaves us less well rather than better prepared to take quick action in the event of a more serious emergency. It apparently fails to recognize that the current need is for legislation to deal with a potential emergency rather than with an immediate actuality. Such a potential need is, however, ignored when Congressional sentiment is set adrift by a temporary recession, as at present.

It is all very well to say that quick action will be taken later, when the need for stronger measures develops. More realistically considered, the legislative process is not flexible enough to produce adequate controls on short notice. It is unlikely to produce a sound result hastily, under the chaotic conditions of an acute emergency. And even if something is then passed quickly, the lack of advance knowledge makes it impossible to effectively plan and organize immediate action.

In this situation of continuing, but highly variable, tension we must be prepared to act but must refrain from acting without sure justification. We cannot be prepared without legislation that permits substantial flexibility of action. We cannot agree on such legislation unless reasonable restraint is exercised in the administration of measures already enacted. Breaking this impasse is one of the most urgent tasks before us.

GROSS NATIONAL PRODUCT AND NATIONAL SECURITY PROGRAMS

(1st half of 1951 prices)



✓ SEASONALLY ADJUSTED ANNUAL RATES
SOURCE: COUNCIL OF ECONOMIC ADVISERS

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Advertising Ideas

Sales and Advertising Opportunities for the Small Manufacturer, by Norman C. Tomkins (Printer's Ink Publishing Company, 1950, \$4.50) is based on helping the small manufacturer to devote as much attention to the sale of his product as he does to making it. The book points out that since 300 large companies account for 60 percent of the value of manufactured products annually, small manufacturers must take full advantage of their many marketing opportunities. Sales methods and advertising strategies that the small firm as well as the large can afford to use are described.

Five-Color Lithography

The first offset press capable of printing five colors has been completed by the Harris-Seybold Company of Cleveland, Ohio. Four-color lithography has been in use for the past 20 years, but the new 85-ton machine, built at a cost of about \$250,000, is the first to have five printing units. Sheets of paper ranging from two-thousandths to one thirty-sixth of an inch thick are automatically passed from one unit to the next in exact register at speeds up to 6,000 sheets an hour. The machine also features a new type of double sheet delivery mechanism which allows the printed paper to be deposited on either of two separate piles.

Quick-Starting Battery

Development of a lightweight storage battery capable of starting a motor vehicle engine at 65 degrees below zero has been announced by the University of Michigan Engineering Research Institute. The battery, developed in cooperation with the Army Ordnance Corps, uses lead-plating materials ordinarily corroded by sulphuric acid. The plating process makes possible the replacement of large amounts of lead used in standard batteries with aluminum, brass, iron, or copper. A constant high power output is said to be maintained by the battery, which retains a charge over long periods when not in use.

Secondary Oil Recovery

When an oil well is near the end of its production, openings are drilled around it and water is pumped into the ground to wash more oil out of the oil-bearing sand. However, from 25 to 30 percent of the oil remains in the well even after it is abandoned. Armour and Company is now making chemicals from animal and vegetable fats which hold promise of greatly increasing the world's petroleum supply. When the chemicals are added to the water used to wash out petroleum, larger recoveries can be obtained. It is estimated that each 1 percent increase in recovery of oil from American wells will boost the United States oil reserve by a billion barrels. Two kinds of chemicals are involved, both manufactured by Armour at a plant in McCook, Illinois. One, made from beef tallow, greatly increases the ease with which water flows through the sand and may increase the total amount of oil a well produces by as much as 10 percent. The other chemical acts to prevent corrosion of water pipe and equipment and also kills bacteria which often accumulate when water is pumped down, blocking the sand pores. Both chemicals are effective in as small quantities as 5 parts to a million parts of water.

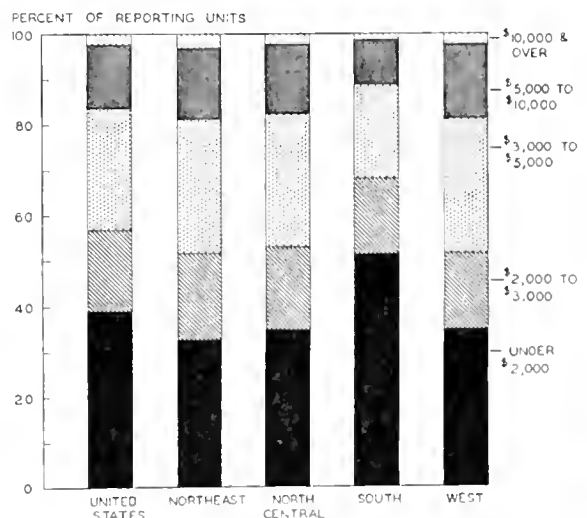
Cold Steel Extrusion

The cold extrusion of steel has been brought one step nearer to general commercial use by a new metal-treating chemical process announced by the Pennsylvania Salt Manufacturing Company in which cold steel is literally squirted or squeezed like a plastic into shape. This Pennsalt Foscoat process consists of the cleaning, pickling, and application of a new phosphate coating and specially developed lubricants to steel. It produces a heat-resistant lubricating surface which is chemically interlocked with the steel and has exceptional adhesion under even the most severe working conditions. Substantial economies are realized through the elimination of intermediate pressing, annealing, and chemical treating operations. There are also large savings of metal, reduced scrap losses, and considerable extension of the life of the costly dies. The process is said to have increased production in a wire-drawing plant by 40 percent while lengthening die life two and one-half times.

Regional Incomes

The 1950 Census of Population Report entitled "Employment and Income in the United States, By Regions: 1950" reveals that regional increases in the labor force during the decade of the 40's resulted in higher incomes for all areas. The labor force in the North Central region showed an increase of 12 percent, compared with a rise of 13 percent for the nation as a whole. The generally high level of employment was reflected by an average family income in 1949 of \$2,599. As shown by the chart, approximately 16 percent of the total 49.5 million families in the country received incomes of \$5,000 or more, while 39 percent had incomes under \$2,000. With the exception of the South, which had the highest percentage of incomes under \$2,000, the median income received in 1949 varied little from one region to another. The median for the Northeast, West, and North Central regions was approximately 50 percent greater than the \$1,940 median for the Southern states.

DISTRIBUTION OF INCOME, 1949



Source: 1950 Census of Population, Preliminary Report, Series PC-7, No. 2

POINT IV

C. ADDISON HICKMAN, Professor of Economics

Recent Congressional debates and hearings on the Mutual Assistance Bill have again highlighted the economic sector of our foreign policy. Congressional cuts in the requested authorizations of \$8.5 billion have been largely in economic aid rather than in military grants. In the process, pleas that the Point IV program should be dramatically expanded were ignored.

Indeed, initial Administration askings for Point IV were apparently limited by fear of adverse Congressional reaction. Most of the \$2.25 billion asked by President Truman for economic aid was not for long-run economic development but rather to "support expanded defense efforts abroad."

As the Point IV program emerges from its first full year of operation and from its second Congressional trial by fire, it can be re-examined with a new perspective. It may now be appropriate to ask once again: What is Point IV all about? What is it trying to do? Is it worth continuing?

Development of the Program

President Truman, in his January, 1949, inaugural address listed several aims of American foreign policy. The fourth and climactic point in his listing proposed a "bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas."

In June, 1949, in a special message to Congress, the President translated Point IV into two specific requests: a relatively small outlay for technical assistance to underdeveloped nations, and guarantees by the Export-Import Bank of American private investment abroad. In the Act for International Development passed one year later, the first of these requests was honored but the second was rejected.

The \$34.5 million authorized by the Act for technical assistance during fiscal 1951 included \$13 million allocated to the United Nations and its agencies and \$5 million to the Institute of Inter-American Affairs. Of the remaining \$16.5 million, \$3.9 million was set aside for administration and reserves, leaving but \$12.6 million for additional projects. Of this residue, \$5.3 million was authorized for about 100 projects already under way in Latin America, \$5.1 million was the total for the Near East and Africa, and \$2.2 million was the Far Eastern share. The latter total, incidentally, could provide about one-fifth of a cent for each person in Asia.

The 1950 Act was clearly an extremely cautious and limited implementation of the "bold new program." The Act is not a frontal attack upon the world's poverty, as many had come to believe that it might be. It calls for a small, restricted program of technical assistance, and it authorizes neither large-scale public outlays nor guarantees of private investment. Those whose imaginations had been stirred by the implications of American sponsorship of a new and truly world-wide industrial revolution were disillusioned.

If the actual program seemed a parody of the 1949 inaugural address and of the hopes subsequently kindled, it was in equally sharp contrast to the magnitude of the problem it was set up to help solve. It is difficult for Americans to grasp the vast size of this problem, as our comfortable scale of living tends to make poverty, disease,

illiteracy, and low life expectancy in most of the rest of the world seem remote and unreal.

Within the terms of its limited mandate and scanty funds, the Act has now been put in force. The Technical Assistance Administration, established to operate the program, has set up a skeleton staff, sent out a number of technicians, and entered into several bilateral agreements. Ironically, perhaps the principal achievement of the first year of operation was an International Development Advisory Board report in March, 1951, recommending a drastic expansion and revision of the program. The Board, whose duties in connection with the program are suggested by its name, endorsed an earlier Presidential committee's request that \$500 million a year, apart from emergency outlays, be appropriated for development programs.

Has Point IV Failed?

Many people assert that the Point IV program, after one year of tentative and halting operation, has already failed. The program is open to criticism both by those who have opposed any substantial American aid in economic development, and by those who want a program far larger than that established in the 1950 Act. In a sense, the controversy has remained on about the same level of generality as it occupied a year ago, inasmuch as there has been little time and little money spent since the Act was passed.

Among the many rather bleak appraisals of our Point IV policy that appeared in 1951, one of the more arresting was that made by the London *Economist* (June 2, 1951). Although that influential journal agrees that "the principle of Point Four is one of obvious wisdom and of urgent importance," it asserts that the program is in trouble. Why? Part of the difficulty is attributed to what has happened in the world since January, 1949 — notably the new stress on arms programs and the turn in the terms of trade against the industrialized nations. The *Economist* argues, however, that there are more fundamental reasons why such programs have been stillborn or stunted. Its case centers around the alleged inability of most of the underdeveloped countries to accept assistance and use it efficiently.

There are indeed difficulties on this score, many of them social and political rather than economic. Widespread illiteracy and ill health, customs and traditions resistant to industrialization, primitive and usurious credit systems, savagely regressive tax systems, and feudal land-tenure systems — all these at least reduce the rate at which economic development can take place. In many nations, political and economic control is so tightly and rigidly exercised that the benefits of improved technology and larger output never filter down to the people. In such cases economic development may even lower levels of living — as in South Africa and Egypt — at least for a considerable period.

Most of the underdeveloped areas are also in some danger of explosive bursts of population which siphon off much or all of the additional income generated by development and thus may intensify distress and poverty. Death rates in developing countries have tended to decline faster than birth rates. It is difficult to know how prolonged and intense this problem may be, for most of the

trends upon which we base our reasoning have been limited to Western society in a particular historical epoch.

Underdeveloped countries accepting foreign aid are also concerned lest they compromise their precarious political independence and perhaps also become fixed in the economic orbit of the country offering aid. This gives special alarm to those developing countries which fear that expansion of their economies and exports will only make them more vulnerable to a still-dreaded American depression or to American tariffs, import quotas, and export subsidies.

Obvious problems also confront the United States and other sponsoring nations. Private investment abroad has been small since World War II, and opposition to large-scale public outlays continues to be strong. At full-employment levels, large grants abroad do have an inflationary effect, unless these can become in part a substitute for military spending. Fears of ultimate cut-throat competition with American industry by the newly industrialized nations, although scarcely valid in terms of historical experience for our economy as a whole, may have some basis for particular industries.

If our aid is handled clumsily, or perhaps in any event, charges of imperialism or paternalism may be leveled against this country. In countries governed by unpopular and despotic regimes, the donor is likely to be identified with the group in power and thus share its stigma. Risks of this sort constitute one of the principal arguments advanced for setting up economic development programs such as Point IV under international auspices. Finally, the cases of Germany, Japan, and the U.S.S.R. seem to at least raise the question as to whether industrialization necessarily makes a nation more democratic and peacefully inclined.

The Case for Point IV

All these problems are real enough, but the attractions of economic development remain very powerful indeed. For the underdeveloped nations, it means the possibility of more food, better shelter, and a release from grinding poverty. It also seems to most of these countries to be the indispensable bulwark of political independence, national security, and economic stability. The obstacles to development are many, but the drive to overcome them has terrific impetus — often to the point of bringing in a new regime less opposed to progress or of recasting old feudal arrangements.

The long-run stakes are perhaps at least as large for developed countries such as the United States, although the immediate returns are not so obvious. In short-run political and military terms, Point IV is widely advocated as a partial counter to Soviet penetration and to communist ideology. In terms of national economic self-interest, protagonists of Point IV and other, more ambitious programs remind us that our trade with other industrial nations has always been much larger than with underdeveloped countries.

In broader, longer-run terms, Point IV represents a calculated gamble that a more prosperous world would have less unrest, fewer dictatorships, and relative peace. It is indeed a gamble, with the odds unknown. The gains would be enormous, however, and the costs negligible — as against World War III and/or a perpetual garrison state and beleaguered world. The question is not whether economic development throughout the world will surely bring peace, but whether it makes peace more likely or less likely.

How Big Should Point IV Be?

The desirable size of the Point IV program has been hotly debated from the very outset. Opinions range from "no program at all" to the multi-billion-dollar, long-term outlays urged by Senator McMahon, Walter Reuther, a special United Nations committee, and others.

Basically, the issue of size resolves into the issue of what kind of program is wanted. There are also, of course, technical considerations such as the rate at which the projects can be set up and capital absorbed, the number of technically trained personnel, and the quantity of capital goods available for export.

The key question here is this: Should Point IV continue to be primarily or exclusively a technical assistance program, or should it include large-scale capital export? Although capital cannot be exported faster than it can be effectively received, it is difficult to see how major economic development can occur without our capital export. Although some local capital exists in a handful of the underdeveloped nations, it is clearly not adequate for the job. Even if the capital-export features remain stripped from Point IV, however, the program could probably use \$345 million — or more — with greater efficiency than it can use \$34.5 million.

Enlargement of the program is contingent, of course, upon greater resources — probably both governmental and private. The familiar dichotomy — government vs. private — is probably too simple. Technical assistance grants by their nature are likely to be largely governmental, as may also be true of grants for health programs, schools, and similar purposes. Large-scale, continuing flows of capital for general economic development, especially industrialization, may come in larger part from private enterprise. If so, private capital must somehow be encouraged to move overseas at higher than post-World-War-II levels. During 1947-1949, for example, our net annual private direct investment abroad, petroleum excluded, averaged only \$128 million in Latin America and \$28 million elsewhere in the world.

Who Should Do the Job?

A final issue to be resolved, although not necessarily in the immediate future, involves the sponsorship of global economic development. Shall it be individual nations, notably the United States? Or shall it be the United Nations, in its own name, through its specialized agencies, or through new institutions?

The arguments for United Nations sponsorship, on logical long-run grounds, are compelling. World-wide economic development is capable of straining even the combined resources of the developed countries, involves a host of projects that transcend national boundaries, and brings in its wake major international policy issues. The United Nations, if it can avoid being identified as the pawn of any of its members, can offer aid that will not be automatically suspect by nationalistic and recently colonial peoples. The United Nations is said to be weak, but it will get no stronger if it is by-passed on programs whose sponsorship would give it a major function to perform and would rally support.

Yet, political resistance to such large-scale commitments of United States resources to the United Nations remains powerful. This issue too, however, may prove overstated, if the United States is willing to continue channeling part of its development funds through the United Nations, and especially if it is willing to increase the United Nations share as rapidly as the American political climate and the ability of the UN may allow.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity during July showed mixed trends, in common with the national economy. A notable change from June to July was the drop of 13.4 percent in construction contracts awarded, a contra-seasonal movement explained by building restrictions for non-defense purposes. Nonresidential building, public works, and utilities accounted for 47 percent of total contracts awarded during July.

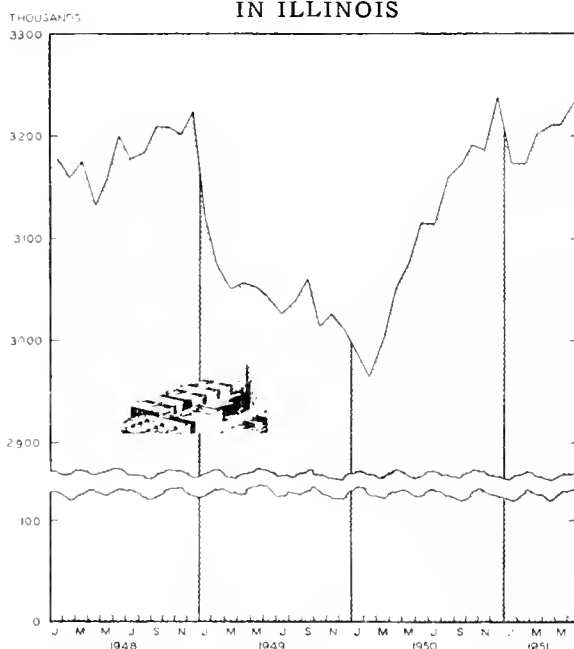
Steel Production

Chicago area steel mills operated at a somewhat lower rate in July than in June, but continued to exceed capacity, and turned out more steel because of the longer month. At 102.4 percent of rated capacity, output for the month reached a new peak of 1,869,000 net tons. Steel producers have been concerned for some months about insufficient supplies of scrap; and it has been reported recently that mills around Chicago have not yet been able to accumulate adequate stockpiles with which to start the winter when shipments are un dependable. With scrap becoming more important in furnace charges, this winter may see lessened steel output unless more scrap makes its way back to the producers.

Nonfarm Employment

Except for the seasonal high last December, the number of nonagricultural workers on the job in Illinois during June reached the highest point since the beginning of 1948. As illustrated in the accompanying chart, the recovery from the 1949 dip has been completed under the impact of an expanding peacetime economy and a shift to defense mobilization. Manufacturing employment has recovered most of the readjustment drop and now exceeds the average level for 1948. Mining and quarrying, transportation, communications, and public utilities, and trade employment are still somewhat below the 1948 average, but are more than offset by gains in other occupations, such as contract construction, finance, insurance, and real estate, and service and miscellaneous industries.

NONAGRICULTURAL EMPLOYMENT
IN ILLINOIS



Source: Illinois Dept. of Labor.

Income Payments Advance

Since the economic indicators for Illinois usually follow the national trend rather closely, it is not surprising to find that income payments to individuals over the past three years show similar changes. Income from farming activities decreased in relation to the whole from 8.5 percent in 1948 to 5.4 percent in 1950, with a compensating increase in income from "all other" sources from 25.9 percent of the total in 1948 to 28.2 percent last year. Income from government work, manufacturing, and trade and finance accounted for about the same portion of the total in each of the last three years.

Income payments in Illinois were up 9 percent from 1949 to 1950 (somewhat less than the national average). Agricultural income, up 7 percent, showed the smallest percentage increase; manufacturing payrolls, up 12 percent, made the largest gain. In absolute amounts, total income payments climbed from \$14.0 billion in 1949 to \$15.3 billion in 1950; per capita income rose from \$1,627 to \$1,752.

More Money for Roads

Funds badly needed for the renovation and extension of the State highway system are to be obtained under a double-barreled program which became law during July. The State gasoline tax was increased from 3 cents per gallon to 4 cents on August 1, and will be raised again, to 5 cents per gallon, on January 1, 1953. Truck license fees were also increased, with new fees calculated on the basis of weight carried and miles traveled. The two new provisions are expected to produce additional revenue of \$40 million in 1952 and \$60 to \$70 million thereafter, as compared with 1950. Beginning in 1953, highway funds from motor fuel taxes will be apportioned as follows: State highways, 35 percent; cities, 32 percent; Cook County, 11 percent; downstate counties, 12 percent; and townships, 10 percent.

New Industry in Southern Illinois

Southern Illinois is receiving a shot in the arm through the building of an Atomic Energy Commission plant near Paducah, Kentucky. Although the plant will not be finished for many months, business in the region has already been given a boost by the increased employment and income of construction workers who have found jobs either at Paducah or at Joppa, Illinois, where a large electricity-generating plant is being built. Aside from this immediate gain for the area, new job opportunities will be opened up when the AEC plant starts operations; trade and service establishments will benefit from the increased income; and, not least of all, the coal-mining industry in that section of the State is expected to be a major source of fuel for the Joppa generators.

New Data

For several months, the table of Illinois Business Indexes on page 4 has carried manufacturing employment as "not available" while the series is being revised by the Illinois Department of Labor. Although we still do not have a revised 1935-39 base for an employment index, we are able to print percentage changes from the previous month and the previous year for comparative purposes.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

July, 1951

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS							
ILLINOIS		\$19,349 ^a	806,114 ^a	\$507,698 ^a		\$10,411 ^a	\$9,819 ^a
Percentage Change from	{ June, 1951	-41.6	-3.2	-1.3	-18.6	-4.5	-8.0
	{ July, 1950	-50.2	+6.7	+3.9	-12.4	+16.7	+9.0
NORTHERN ILLINOIS							
Chicago							
Chicago		\$11,461	627,642	\$373,013		\$9,479	\$7,992
Percentage Change from	{ June, 1951	-48.4	-3.3	-2.4	-19.2	-4.1	-14.4
	{ July, 1950	-60.0	+5.6	+3.7	-10.7	+17.6	+1.8
Aurora							
Aurora		\$ 489	n.a.	\$7,229		\$38,147	\$ 73
Percentage Change from	{ June, 1951	-61.5		-0.7	-16.5	-18.9	+0.1
	{ July, 1950	-34.6		+10.6	-18.8	+0.2	+12.3
Elgin							
Elgin		\$ 241	n.a.	\$5,146		\$ 25	\$ 47
Percentage Change from	{ June, 1951	+15.9		-6.1	-24.9	-20.4	-35.0
	{ July, 1950	-32.5		+0.3	-15.2	+5.0	-5.8
Joliet							
Joliet		\$ 364	n.a.	\$9,528		\$ 46	\$ 49
Percentage Change from	{ June, 1951	-32.5		-2.2	-15.2	-10.1	-22.7
	{ July, 1950	-14.8		+8.2	-12.9	+10.8	-19.7
Kankakee							
Kankakee		\$ 142	n.a.	\$4,535		n.a.	\$ 28
Percentage Change from	{ June, 1951	-36.6		-4.4	-4.1		+8.3
	{ July, 1950	+10.1		-4.9	-26.3		+11.4
Rock Island-Moline							
Rock Island-Moline		\$3,366	16,528	\$9,595		\$ 34 ^b	\$ 111
Percentage Change from	{ June, 1951	+279.5	-6.8	+0.2	n.a.	-12.9	-8.2
	{ July, 1950	+126.2	+13.4	+1.2		+6.4	+13.8
Rockford							
Rockford		\$ 713	21,854	\$15,868		\$ 121	\$ 128
Percentage Change from	{ June, 1951	-9.9	-10.6	-3.2	-21.8	-15.7	-7.7
	{ July, 1950	-31.0	+8.8	+6.9	-12.3	+20.4	+3.7
CENTRAL ILLINOIS							
Bloomington							
Bloomington		\$ 244	5,236	\$5,122	n.a.	\$ 48	\$ 68
Percentage Change from	{ June, 1951	+33.3	+4.3	-6.0		+1.4	-23.4
	{ July, 1950	-32.2	+18.3	+0.1		+15.5	+10.0
Champaign-Urbana							
Champaign-Urbana		\$ 181	6,967	\$7,118	n.a.	\$ 48	\$52,864
Percentage Change from	{ June, 1951	-2.2	+1.5	+1.2		-5.4	-13.5
	{ July, 1950	-81.9	+7.6	+8		+12.8	+4.8
Danville							
Danville		\$ 176	6,859	\$5,880		\$ 38	\$ 46
Percentage Change from	{ June, 1951	-21.8	-7.1	+3.3	-17.8	-5.6	+0.3
	{ July, 1950	-43.2	+7.4	+9.4	-20.2	+0.6	+3.3
Decatur							
Decatur		\$ 246	18,878	\$8,973		\$ 70	\$ 78
Percentage Change from	{ June, 1951	-20.6	+5.9	-2.4	-8.2	-12.0	-4.0
	{ July, 1950	-76.7	+32.7	+2.4	-23.0	+1.1	+11.0
Galesburg							
Galesburg		\$ 129	5,321	\$4,011		n.a.	\$ 28
Percentage Change from	{ June, 1951	-1.5	+5.9	-2.3	n.a.		0.0
	{ July, 1950	-11.6	+16.5	+1.7			+6.2
Peoria							
Peoria		\$ 804	42,594 ^c	\$17,082		\$ 200	\$ 169
Percentage Change from	{ June, 1951	+60.8	-7.0	-2.2	-12.6	-5.6	+0.1
	{ July, 1950	+12.8	+2.3	+4.8	-17.3	+6.0	+5.0
Quincy							
Quincy		\$ 214	6,600	\$4,650		\$ 31	\$ 53
Percentage Change from	{ June, 1951	-13.0	-5.6	-1.2	-19.0	-12.0	-18.9
	{ July, 1950	-30.8	+7.1	-2.6	-20.0	+4.5	-2.2
Springfield							
Springfield		\$ 267	21,982 ^c	\$12,730		\$ 80	\$ 167
Percentage Change from	{ June, 1951	-59.0	+4.8	+1.2	-10.7	-8.4	-18.5
	{ July, 1950	-62.6	+15.2	+6.3	-24.5	+3.8	+1.6
SOUTHERN ILLINOIS							
East St. Louis							
East St. Louis		n.a.	10,827	\$8,818		\$ 124	\$ 41
Percentage Change from	{ June, 1951		-4.1	+1.9	n.a.	+2.5	-21.2
	{ July, 1950		+14.2	+8.1		+7.4	-27.5
Alton							
Alton		\$ 213	10,555	\$4,417		\$ 28	\$ 19
Percentage Change from	{ June, 1951	+0.5	+1.5	-4.4	n.a.	-6.1	-12.3
	{ July, 1950	+37.4	+10.5	+0.9		+13.1	-15.6
Belleville							
Belleville		\$ 99	4,269	\$3,982		n.a.	\$ 32
Percentage Change from	{ June, 1951	-75.6	+0.5	-2.8	n.a.		+4.6
	{ July, 1950	-55.0	-2.4	+5.4			+5.8

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for June, 1951, the most recent available. Comparisons relate to May, 1951. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

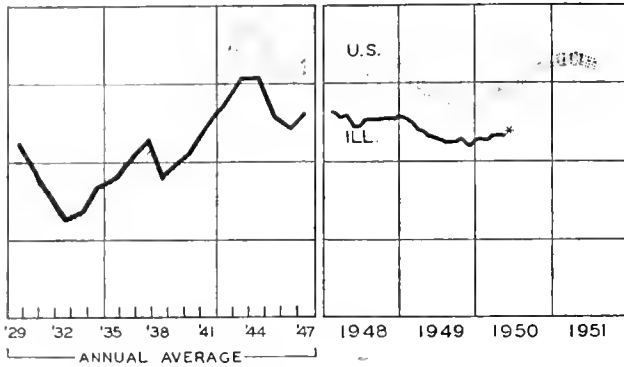
^c Includes immediately surrounding territory.

n.a. Not available.

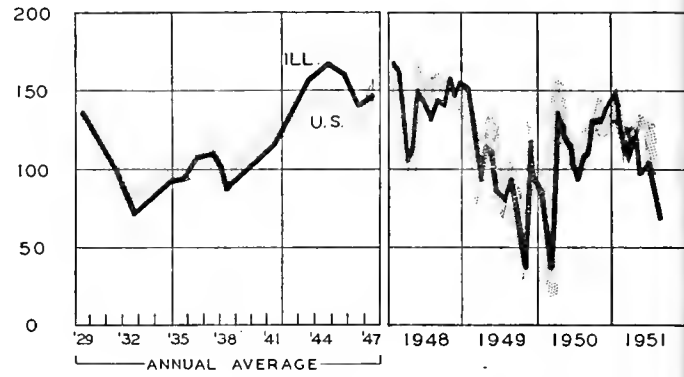
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

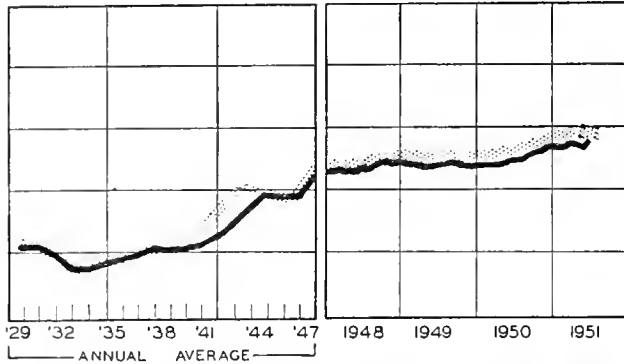
EMPLOYMENT-MANUFACTURING



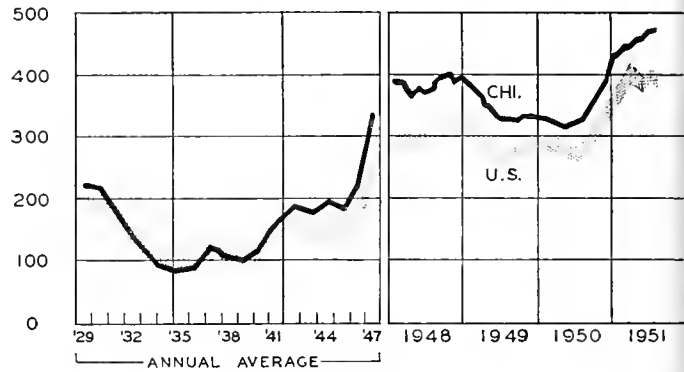
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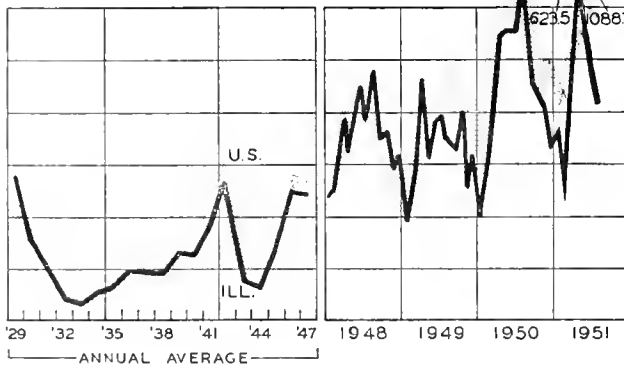
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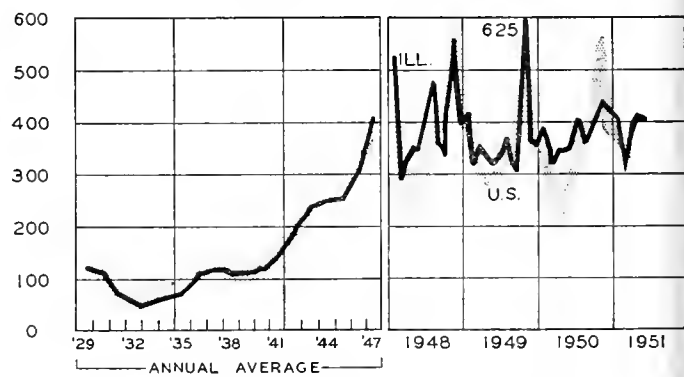
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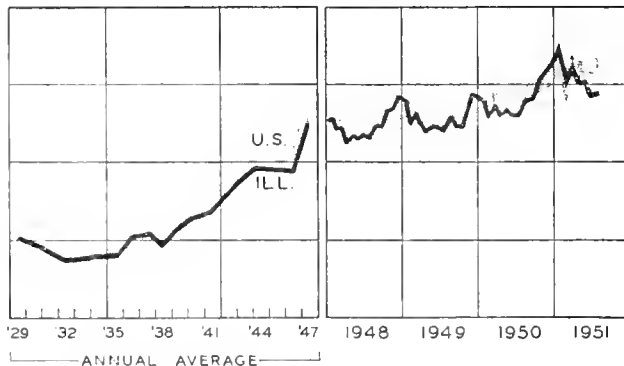
CONSTRUCTION CONTRACTS AWARDED



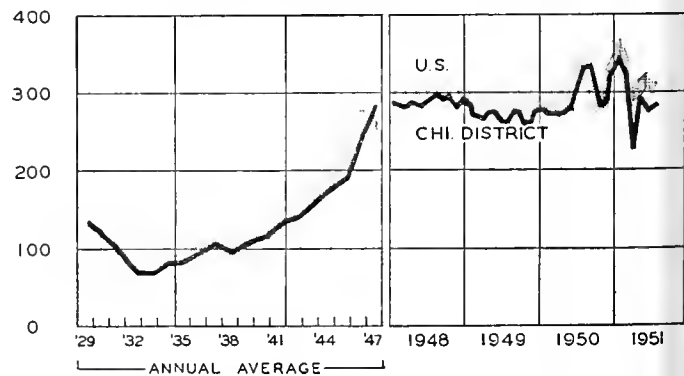
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



* Illinois figures being revised.

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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HIGHLIGHTS OF BUSINESS IN SEPTEMBER

Economic activity continued at high levels in September. Unemployment remained near the postwar low, incomes were at record levels, and steel output showed a five percent gain over a year ago.

Although the over-all economy held about steady, internal shifts were taking place. Several important lines of business continued to face lagging demand and sizable inventories. Department store sales regained the level of a year ago, after failing to equal booming sales in the third quarter. Inventories remained generally large, in spite of the fact that department stores had cut stocks ten percent since April.

The price level remained virtually unchanged, but sharp changes in individual prices occurred. Prices of such basic materials as cotton, wool, rubber, and tin were well below post-Korean highs; however, these prices were beginning to inch upward again in late summer and early fall. Prices of several major agricultural staples are near support levels. Meanwhile, prices of many metals continue to press against ceilings, some of which have been adjusted upward.

Arms Output Rising

The massive defense program is now turning out war goods in quantity. Nearly \$100 billion of military procurement has been programmed and orders for almost half the total have been placed. Through September deliveries amounted to \$14 billion and are scheduled to reach a peak of \$4 billion per month in the first half of 1953.

Although arms production is mounting, several important bottlenecks are being encountered. Machine tools are not yet available in adequate supply, although output has sharply increased. Metal supply problems have not yet been solved by the Controlled Materials Plan. Other problems involve water supplies for hydro-electric power in the Pacific Northwest (prompting suggestions that aluminum plants be moved to other areas), and a critical shortage of engineers and scientists.

The full impact of the arms program has yet to be registered on the civilian sector of the economy, although restrictions and diversions are beginning to take hold. Consumers have found adequate supplies of most goods available, primarily because of the large inventories accumulated earlier this year. Housing starts have been unexpectedly large; and new plant and equipment outlays

have far exceeded those of 1950, although the fourth quarter may lag.

Tax and Foreign Aid Bills Debated

Two important economic measures neared Congressional passage in September. The new tax bill, designed to raise an additional \$5.7 billion, increased personal and corporate income tax rates by more than 10 percent, and increased and added excise taxes. Many individuals, however, will be given tax relief in the bill. A few excise taxes are decreased; income-splitting for tax purposes is extended; persons over 65 can deduct all medical expenses; and capital gains from the sale of a residence will not be taxed if put into another house within a year. The new law is expected to trigger new wage demands and to generate further controversy over the general level of taxation.

After months of hearings and debate, a compromise foreign aid bill, authorizing nearly \$7.5 billion for military and economic aid, was in its final stages. Of this total, about \$6 billion was for weapons and just under \$1.5 billion for economic assistance. The final measure contained a provision, however, that some funds may be transferred from military to economic aid in Europe at the President's discretion.

New Economic Crisis in Britain

The new aid program is launched against a backdrop of potential foreign exchange crisis in Great Britain. The sterling area had a net shrinkage of nearly \$600 million in gold and dollar reserves during the third quarter of 1951, more than wiping out gains earlier in the year. Large trade deficits with North America, Europe, and Argentina developed just as Marshall Plan aid was tapering off, and the hoped-for tourists influx did not quite materialize.

The Iranian oil crisis resulted in both a stoppage of profits and the necessity of finding new sources of oil imports. Dollar earnings of the dominions and colonies also failed to reach desired heights, as raw material price breaks and sales slumps developed. The sterling area still holds \$3.3 billion in gold or dollar reserves, which is \$500 million above a year ago and about \$2 billion above the 1949 low. The recent shrinkage and prospects of continuing declines have nevertheless made new import restrictions probable.

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Business Trend Points Upward

Business has remained on a comparatively level plateau since the early part of the year. For the past six months the civilian economy has been adjusting—to its own earlier excesses as well as to material shortages and controls—and its adjustments have approximately offset the accelerated upsurge of the military program. Now this period of readjustment is nearing an end.

Factors in the Business Outlook

Military Program. We are currently moving into the period of most rapid advance in armament production. According to Mobilizer Wilson's Third Quarterly Report, deliveries of military goods in the July-September period were at an annual rate of over \$20 billion and were scheduled to double in the next year. The peak deliveries now scheduled for the first half of 1953 represent an annual rate of \$48 billion. This projected rise is more than sufficient to offset any further declines in the civilian economy.

Private Investment. Business purchases of productive equipment and nonresidential construction are approaching a peak rate of almost \$40 billion, and no large decrease in such expenditures is in sight, though some tapering off appears likely next year.

Housing. Residential construction is already down about 30 percent from the rate of nearly \$14 billion reached in the summer of 1950, and this decline will probably continue through the first half of 1952 at least.

Consumption. Consumer expenditures dropped back \$6½ billion from the high of the first quarter to an annual rate of \$202 billion in the second quarter. Durable goods purchases alone fell \$5½ billion and further declines in this segment are projected in announced cutbacks in metal supplies. More conservative spending by consumers also produced a \$2 billion decrease in nondurable goods purchases but wartime experience suggests that this decline is only temporary. Services advanced \$1 billion as a partial offset to these declines. Future advances in nondurable goods and services will probably more than offset further declines in durable goods purchases, making for a moderate advance in total consumer expenditures next year.

Inventories. The decline in consumer buying forced business to hold in inventories goods it had expected to sell. The decline in sales also made large holdings exces-

sive. (See chart, p. 5.) In view of the prospective strength in the economy, over-all holdings do not appear so great as to make liquidation necessary; but further accumulation had to be prevented, and this could be done only by cutting production. The decline on inventory account will probably end soon, and inventory changes seem likely to be more limited in 1952.

Price Level Prospects

The net effect of all these changes will be to push the economy ahead. Even with peace in Korea and some moderate cutbacks in the peak rate of military production there will be some advance. Nevertheless, the over-all rate of advance called for under present programs is moderate. It appears, in fact, to lie within the limits of our ability to produce, so that it could be achieved without a renewal of inflationary pressure. Then, as the military program approaches a peak toward the end of 1952, a new plateau of stability might be reached.

Such an advance in activity is an almost sure guarantee against any substantial decline in prices. Favorable prospects remove the incentive for price cutting even when moderate declines like those of recent months are taking place. They do not, on the other hand, offer any guarantee against further price advances. Although business seems willing to maintain the price line for the time being, almost any advance could provide a basis for putting prices up. Once present policy is upset by new inflationary developments, pressure might, temporarily at least, become well-nigh irresistible.

Are such developments likely? This is almost equivalent to asking what might happen to intensify war fears. New outbreaks that involve us in heavier military operations will inevitably build new inflationary pressures. Attempts to build up the military program will have the same effect even if no new outbreaks occur. Increasing the armed forces above the present level of 3.5 million, for example, would correspondingly reduce the potential increase in the civilian labor force; and an increase in the armed forces to 5 million would take about all of the labor increment on which we must rely to obtain the increases in production now scheduled.

Furthermore, any important change in the situation could set off a new wave of consumer buying. Consumers have decided to spend less and to save more, for the time being, as they did during World War II. High savings, however, increase potential spending in the future and savings at the current rate of over \$20 billion are high enough to give consumers ample opportunity to maintain expenditures in the face of rising prices or of moderate cuts in income, such as the recent increase in taxes. Recurring needs now dominate the pattern of consumer behavior, but only so long as this holds true will spending stay in line with changes in income.

The danger lies in a substantial departure from this pattern of behavior. If the advance should be accelerated, as at the end of 1950, creating an impression that a policy of conservative spending is mistaken, consumer attitudes could quickly reverse. It is probable that any new rush of anticipatory buying by consumers and business will again prove temporary; but the most important lasting effect of such surges and readjustments is a heightening of insecurity.

No one can tell just when or how any of these unfavorable possibilities might develop. The sheer volatility of the situation suggests that policy should be designed to avoid disturbing the precarious balance in which the economy moves.

GROWTH OF FARM COOPERATIVES

Cooperation has been a part of the American farm scene since the first colonies were settled on the Eastern seaboard. Conditions in the wilderness made it necessary for farmers to take action for mutual protection and to work together in bridging streams, erecting buildings, and harvesting crops. By the nineteenth century their earliest attempts to buy and sell cooperatively had started a movement which has had an important effect on the nation's agricultural economy.

The major types of cooperatives that concern the farmer today are farm marketing and purchasing associations, consumer cooperatives (other than farm supply purchasing organizations), rural electrification cooperatives, credit unions, and insurance associations.

Producer-owned cooperatives were in operation in this country long before the appearance of consumer or purchasing cooperatives. Such agricultural commodities as milk, grain, livestock, fruit, vegetables, poultry, and eggs are commonly sold through marketing cooperatives. They were organized primarily as collective bargaining agents and members leave their products at the creameries, fruit exchanges, and grain elevators to be processed and marketed for the highest price obtainable.

Consumer Cooperatives

Although farmers originally formed cooperatives in order to sell, they are turning more and more to cooperative purchasing through farm supply purchasing organizations and consumer cooperatives which apply the massed buying power of the members to regulate the prices they pay for commodities.

The first consumer cooperative store was started in Rochdale, England, in 1844. The idea caught on and when several stores became well established, they merged to form a wholesale unit controlled and governed by the individual societies. Eventually, increased wholesale volume led to the production of raw materials and the manufacture of commodities to lower prices, a pattern repeated wherever consumer cooperatives have been formed.

The Rochdale principles, or rules for operation, have contributed heavily to the success of the consumer cooperative movement. They form a practical guide to retailing, advising the stores to sell at prevailing market prices, to return any surpluses to the members in ratio to their purchases, and to pay a moderate fixed return to share capital.

An Expanding Movement

Nearly three-fourths of the farm marketing and purchasing associations now in existence were organized in the period between 1910 and 1929. During the 1920's American agricultural prices fell sharply from World War I peaks, while other prices remained relatively high. All through the Middle West farmers started pooling their purchases to get lower prices and selling through cooperatives to raise prices for farm products.

Today the Department of Agriculture estimates that more than half of the farmers in the country regard

cooperatives as an essential part of their operations. In addition to marketing and purchasing functions, the Department of Labor estimates that there were 425 cooperative producing plants in the United States in 1949, including farm machinery and fertilizer factories, oil refineries, feed mills, and coal mines.

Membership in the nation's 10,000 marketing and purchasing associations in 1950 totaled 6,600,000, more than double the number in 1940. Volume of business rose from \$2 billion in the 1939-40 marketing season to \$8.7 billion in 1949-50. The marketing associations' \$7 billion volume represented 25 percent of total cash receipts from farm marketing in the United States in 1950.

Illinois Leads in Membership

In 1949-50, Illinois had more members in farmers' marketing and purchasing associations than any other state. During the decade beginning in 1940, Illinois membership increased by almost 270,000 to 583,000. The State ranked third in 1950 in total estimated business, with a volume of \$675 million. This represented an increase of 250 percent between 1940 and 1950, compared with a 300 percent rise for the nation as a whole.

Of the 578 Illinois associations in 1950, 169 were farm purchasing organizations and 409 were marketing associations. Of the latter, 65 dealt with dairy products, 240 with grain, 39 with livestock, and 9 with fruits and vegetables. Grain, livestock, and dairy associations together had over 99 percent of the estimated business of marketing associations in Illinois. Livestock groups had the greatest membership, almost half of the total for all marketing associations combined.

Earliest Illinois consumer cooperatives were Grange stores, which in the 1880's were said to be found in half the counties in the State. They failed because they tried to undersell competitors by using cost-plus operations. There were also Grange contract stores for pooled purchases, mail order agencies for combined orders, implement factories, grain elevators, and slaughter houses, but it is believed that by 1890 all the Grange cooperative projects in Illinois were abandoned.

Several other fields of cooperation are also important to the farm population of Illinois. In 1948 Illinois had more members in credit unions than any other state, with 456,000 members in 845 associations. In the same year the State ranked second in number of mutual casualty insurance companies, with 21 firms, and third in mutual fire insurance, with 232 firms.

Although Illinois ranked only ninth in total revenue from Rural Electrification Administration systems in 1949, cooperative electricity has played an important part in supplying farms in the State with electric power.

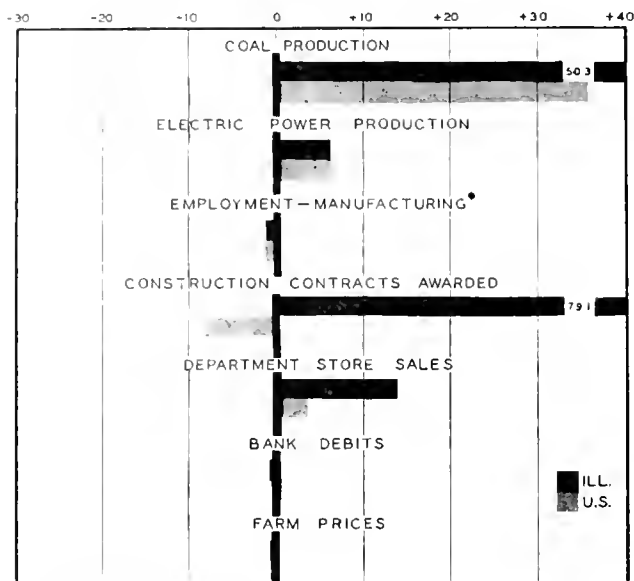
Significant recent developments in the cooperative movement have occurred in the fields of housing, medical care, and frozen foods. This diversification of cooperative enterprises further illustrates the trend that has extended the cooperative idea far beyond its original marketing and purchasing operations.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes July, 1951, to August, 1951



* June, 1951, to July, 1951

ILLINOIS BUSINESS INDEXES

Item	August 1951 (1935-39 = 100)	Percentage Change from	
		July 1951	August 1950
Electric power ¹	305.5	+ 6.0	+ 8.1
Coal production ²	105.3	+50.3	-24.5
Employment—manufacturing ³	n.a.	- 1.2 ^a	+ 4.4 ^b
Payrolls—manufacturing	n.a.		
Dept. store sales in Chicago ⁴	255.7 ^c	+13.4	- 5.2
Consumer prices in Chicago ⁵	190.9 ^d	0.0	+ 5.9
Construction contracts awarded ⁶	742.2	+79.1	+11.5
Bank debits ⁷	332.0	- 0.6	+ 4.0
Farm prices ⁸	275.5	+ 0.6	+12.9
Life insurance sales (ordinary) ⁹	201.5	- 4.7	- 9.5
Petroleum production ¹⁰	227.6	- 2.3	- 5.0

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.
^a June to July, 1951. ^b July, 1950, to July, 1951. ^c Seasonally adjusted. ^d New series. Old series index for August was 191.9. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	August 1951	Percentage Change from	
		July 1951	August 1950
	Annual rate in billion \$		
Personal income ¹	254.4 ^a	+ 0.8	+11.7
Manufacturing ¹			
Sales	272.4 ^a	+ 5.1	- 0.4
Inventories	41.1 ^{a, b}	+ 1.7	+38.4
New construction activity ¹			
Private residential	11.0	- 1.8	-30.4
Private nonresidential	11.3	+ 1.2	+23.0
Total public	11.2	+ 4.2	+28.9
Foreign trade ¹			
Merchandise exports	15.2	+ 6.2	+66.1
Merchandise imports	10.8	+ 0.7	+ 9.8
Excess of exports	4.4	+22.9	.....
Consumer credit outstanding ²			
Total credit	19.3 ^b	+ 0.9	+ 2.5
Installment credit	13.1 ^b	+ 1.2	+ 0.4
Business loans ²	19.5 ^b	+ 2.0	+32.3
Cash farm income ³	n.a.	.....	.....
	Indexes (1935-39 = 100)		
Industrial production ²			
Combined index	218 ^a	+ 2.3	+ 4.3
Durable manufactures	269 ^a	+ 1.1	+ 8.9
Nondurable manufactures	194 ^a	+ 2.6	- 0.5
Minerals	165 ^a	+ 5.8	+ 3.8
Manufacturing employment ⁴			
Production workers	164	- 1.4	+ 1.8
Factory worker earnings ⁴			
Average hours worked	108	+ 0.2	- 2.0
Average hourly earnings	268	0.0	+ 9.4
Average weekly earnings	289	+ 0.2	+ 7.3
Construction contracts awarded ⁵	534	- 8.5	-18.5
Department store sales ²	319 ^a	+ 3.2	- 5.1
Consumers' price index ⁴	186 ^c	0.0	+ 7.0
Wholesale prices ⁴			
All commodities	221	- 0.8	+ 7.0
Farm products	251	- 1.8	+ 7.3
Foods	237	+ 0.7	+ 7.3
Other	206	- 0.8	+ 7.6
Farm prices ³			
Received by farmers	273	- 0.7	+ 9.4
Paid by farmers	226	0.0	+ 9.3
Parity ratio	104 ^d	0.0	+ 1.0

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b As of end of month. ^c New series 185.5; old series 185.6. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1951					1950
	Sept. 29	Sept. 22	Sept. 15	Sept. 8	Sept. 1	Sept. 30
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,842	1,823	1,810	1,847	1,766	1,935
Electric power by utilities.....mil. of kw-hr.....	7,102	7,014	7,138	6,795	7,146	6,503
Motor vehicles (Wards).....number in thous.....	107,306	128,541	129,489	97,547	131,240	178,644
Petroleum (daily avg.).....thous. bbl.....	6,223	6,218	6,203	6,199	6,151	5,835
Steel.....1935-39 = 100.....	228.6	226.6	223.9	220.1	223.5	217.6
Freight carloadings.....thous. of cars.....	865	864	851	733	829	880
Department store sales.....1935-39 = 100.....	327	320	329	289	303	320
Commodity prices, wholesale:						
All commodities.....1926 = 100.....	176.7	176.4	176.9	176.8	176.8	169.9
Other than farm products and foods.....1926 = 100.....	165.1	165.4	165.7	165.7	165.9	160.4
28 commodities.....August, 1939 = 100.....	329.0	325.6	324.9	324.0	322.8	322.5
Finance:						
Business loans.....mil. of dol.....	20,078	19,938	19,842	19,586	19,502	15,725
Failures, industrial and commercial.....number.....	154	160	164	116	164	148

Source: Survey of Current Business, Weekly Supplements.

IRAN AND OIL

Walter H. Voskuil, Professor of Mineral Economics

The intense interest, in this country, in the dispute between Great Britain and Iran over nationalization of the Anglo-Iranian oil industry arises out of a belief that what happens in this dispute vitally concerns the American people. This belief is well-founded. The oil-producing nations of the Persian Gulf area, of which Iran is the leading producer, have become an inseparable part of the economy of the Atlantic Basin nations.

The significance of Iran in the oil industry of the world can be evaluated only when its position in world oil industry and in that of the Persian Gulf countries is portrayed. The world's four large oil-producing districts, areas, or nations are: North America (59.6%); South America and the Caribbean (16.7%); the Middle East (18.9%); and the U.S.S.R. (8.7%). Among these, oil production in the U.S.S.R. and its satellites remains behind the Iron Curtain. The North American output is consumed entirely within its own area. Only the Middle East and the Caribbean are important contributors to the world's oil markets.

The two most important world oil markets are the East Coast of the United States and Europe. Whereas the United States is virtually self-sufficient in oil supplies, Europe is almost entirely dependent on imports to meet its oil requirements. In view of the demand-supply balance in the United States, there are only two outstanding sources of oil to meet the European demand—the Middle East and the Caribbean areas.

Middle East Oil Resources

The Middle East is composed of a group of nations and sheikdoms each of which contributes to the total oil flow. The area as a whole is a vast known supply of oil. Its reserves are estimated at 19.5 billion barrels, or 31 percent of the world total. Against this total reserve, production in 1950 was about 3 percent. To make Middle East oil available to the world markets in larger quantities calls only for additional pipe lines and tankers and increased refining capacity. Among the six political units producing oil, Iran contributes 38 percent, Saudi Arabia and Kuwait together contribute 52 percent, and the remaining 11 percent comes from Bahrein Island, Qatar, and Iraq.

Except for Iran, which produced oil early in the century, petroleum production in Middle East nations and principalities is a recent development. Iraq began production in a small way in 1927 and passed 10 million barrels in 1935. The Bahrein Island field was opened in 1933. Saudi Arabia began production in 1936 and passed 10 million barrels in 1945. Kuwait was opened in 1946, and Qatar in 1949. Iran, until the cessation of production, supplied nearly 40 percent of Mid-Eastern output and 19 percent of the combined output of the Middle East and Venezuela. Although in terms of total world output this appears small, in terms of petroleum available in international trade it looms large to the consuming nations largely dependent upon this

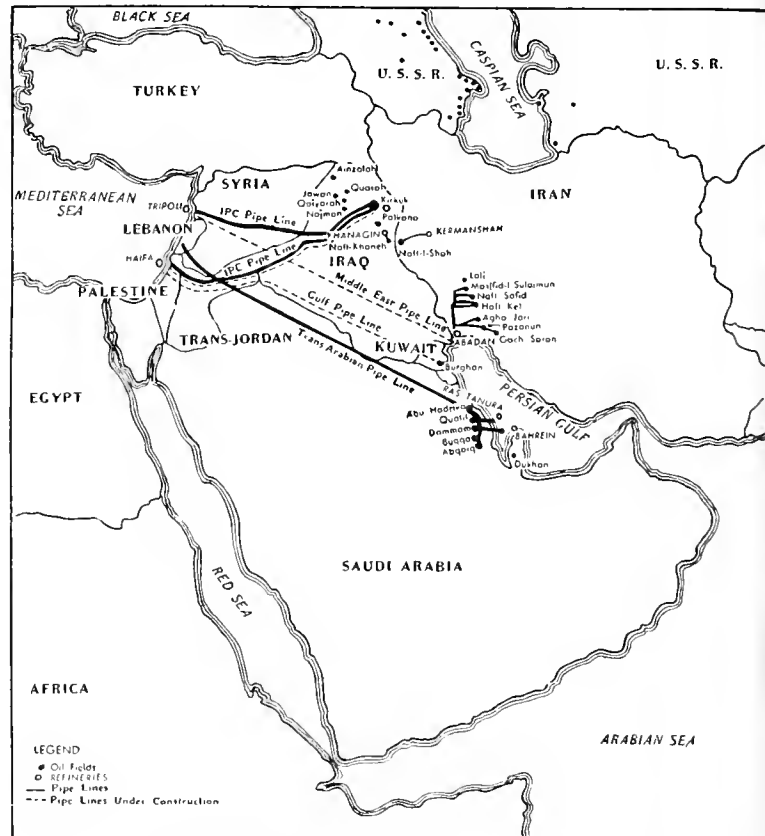
source of supply. The question of alternative sources, therefore, becomes of high interest.

The key to the availability of oil is the transportation system. From that viewpoint, two out of five areas within the Middle East are of interest as possible sources of oil to supply the deficits arising out of the stoppage of production in Iran.

Iraq, without a sea outlet, is limited in its output by two pipe lines from the Kirkuk field to the Mediterranean coast at Haifa and Tripoli. These two pipe lines have a capacity of 32 million barrels a year and are transporting up to the limit. As a result of adding two 16-mile pipe lines paralleling the original lines to Haifa and Tripoli, the output was increased to 49 million barrels in 1949. A 30-inch pipe line, from Kirkuk to Banias, north of Tripoli, projected for completion in 1952, will increase the annual capacity by 95 million barrels a year. Iraq will then assume an important role in the Middle East oil industry; in the immediate emergency it is of no avail.

The Sheikdom of Kuwait, at the head of the Persian Gulf, gives more immediate promise of meeting the mounting oil needs, as well as substituting for Iranian oil. The entire Sheikdom is under lease to the Kuwait Oil Company, owned by the Gulf Oil Corporation and the Anglo-Iranian Oil Company. The grant covers 6,000 square miles, within which one field near tidewater, the Burgan field, has been developed for oil production; 78 producing wells yielded 125,722,396 barrels in 1950, or a

MIDDLE EAST OIL FIELDS, REFINERIES, AND PIPE LINES



Source: *The Petroleum Engineer*, February, 1950.

daily average of 4,400 barrels. Proven reserves are believed to be in excess of 11 billion barrels, or about 13 percent of the world's known reserves of petroleum. Production in the field began in 1946 with a reported output of 5,931,000 barrels, which was increased to 125,000,000 barrels in 1950. Transportation is entirely by tanker. Production can, no doubt, be increased if additional tankers are available. A 34"-36" pipe line with 300,000 barrels per day capacity is projected.

Saudi Arabia, largest producing field in the Middle East since the closing down of the Iranian fields, is also capable of expansion. As in the case of Kuwait, Saudi Arabia is a recent addition to the oil-producing industry of the world. From a beginning of 20,000 barrels in 1937, output rose to 199,500,000 barrels in 1950, practically all of which was carried by tanker. The Trans-Arabian pipe line, known as Tapline, was opened in December, 1950. This line is capable of carrying 315,000 barrels daily or 115 million barrels annually.

The primary purpose of this pipe line is, in effect, to move the oil fields of Saudi Arabia 3,500 miles nearer the European markets. The pattern of oil transportation was to be changed from an all-tanker haul around the Arabian Peninsula to a Tapline-tanker haul via Sidon terminus on the Palestinian coast. In view of the crisis in Iran, it may be necessary to increase Saudi-Arabian production in excess of Tapline carrying capacity to the extent of whatever tankers are available for the round-the-peninsula haul.

Although both Bahrein Island and Qatar are adjacent to tidewater, production is small in each of these fields. There is no evidence that their output can be expanded rapidly.

Background of the Present Crisis

For a half century Iranian crude has been controlled by the Anglo-Iranian Oil Company, in which the British Government holds 52 percent of the stock. In 1933 an agreement was reached with the Iranian Government granting the company a 60-year concession covering an area of 100,000 square miles. The agreement called for a payment of 4 shillings per ton (approximately 20-22 cents per barrel) plus additional payments per ton in lieu of taxes. This was later increased to 6 shillings plus the tax payments.

Late in 1948, the Iranian Government presented the Anglo-Iranian Oil Company with a 25-point memorandum outlining causes of dissatisfaction with the concession of 1933 and requesting renegotiation of terms. Iran regarded this as a matter of importance, since oil revenues constitute a very important source of government revenues. In February, 1949, a Company delegation came to Tehran for discussion with an Iranian Government Commission under chairmanship of the Minister of Finance, Mr. Golshayan. Proposals and counter-proposals were exchanged and rejected. The British delegation returned to London and a second delegation came and went. Finally, in early July a representative of AIOC again arrived, and on the 17th of that month an Agreement amending the terms of the Oil Concession was signed by AIOC and by the Iranian Government.

Under this Agreement Iran's royalty and tax revenues would have been substantially increased, annual payments would have been made from Iran's share in the Company's general reserves, a minimum yearly dividend and general reserves payment would have been fixed, and a lump sum for accrued reserves and retroactive provisions in the contract would have been paid within 30 days from

the date of the agreement. Based on 1948 production of oil, Iran would have received about twice what she was paid under the old concession, roughly £18,000,000 as against £9,000,000, and in addition would have received a lump sum of over £18,000,000. Despite such concrete gains the agreement failed of ratification when presented to the Majlis. The local feeling was strong that even these terms were not sufficiently advantageous for Iran.

In discussing the grievances of the Iranian Government as expressed in the memorandum of 1949 and in subsequent negotiations, two claims by the Government were of particular significance as part of the dissatisfaction of the Iranians. The first had to do with the manner of collecting the British income tax. As explained by R. E. Knowles (*World Petroleum*, July, 1951),

... when the 1933 concession was signed, the total British income tax paid by the company was only £305,000 and the amount paid to the Iranian government "in lieu of taxes" was £274,000, which practically compensated the government for the British taxes collected. In 1947, on the other hand, the company paid British income tax amounting to £15,000,000, which was "offset" by only £765,000 paid Iran "in lieu of taxes." The Iranian government has estimated that approximately £12,000,000 is due her by way of settlement for British income tax unjustifiably collected. In the Persian view this unilateral British decision to apply a greatly increased income tax to the earnings of the Company completely destroyed the presumed equitability of the original understanding with the government.

Another major claim was based on the assertion that the company sold certain oil products to the British government in large quantities at a price below the usual market price. While the actual figure is not disclosed it has been stated that this price was very far below the market price, thus benefiting the British government at Iran's expense. The Iranian government believes that appropriate compensation to Persia should be made for oil products thus sold.

The inability of the AIOC and the Iranian Government to arrive at a firm agreement mutually satisfactory was partly the result of misunderstanding and distrust of the good intentions of both sides. For example, the Company wished to have an agreement for increased royalties coupled with a waiver of pact claims. To allow these claims to remain unadjusted would leave a clouded title to the concession which, the British feared, would be subject to attack by succeeding governments. The Iranians regarded this as an attempt to "force Iran to its knees" because of its desperate need for immediate cash. Furthermore, there exists a deep distrust on the part of the British of the security of an agreement with any Iranian agency, the chief reason being the frequent changes in government. It was in this atmosphere of distrust and growing antagonisms that relations between the two parties continued to deteriorate until the operation of oil fields and the great refinery at Abadan have come to a standstill; the British have been ousted from the refinery and the adjoining residences, and Great Britain has laid the case before the Security Council of the United Nations.

Importance in World Politics

Over the course of events which has brought the Iranian oil situation to its present impasse lies the shadow of possible Soviet intervention.

Soviet interests in the oil of the Middle East are twofold: to stop the flow of this oil to the Western powers in the event of war, and to supplement her own supply with Middle East oil. The first objective may conceivably be accomplished without overt intervention on the part of the Soviets. An intransigent attitude on the part of the present Iranian administration toward the

British in the current dispute would result in a prolonged stoppage of oil production and refining, accompanied by a financial crisis for the Iranian Government. Political disturbances would follow which would effectively bar a resumption of operations. As matters stand now, production under the most favorable circumstances cannot be resumed until 1952.

The second objective, that of annexing Iranian oil production to the Soviet economy, is more difficult. This would mean, to be effective, complete control of the producing field by Russian oil operators, a means of transporting the oil out of the area, and refinery capacity within the Soviet zone to process the crude.

Transportation of the oil northward to the Caspian Sea by rail or pipe line may be ruled out. The only through railroad in Iran is the Trans-Iranian connecting the Persian Gulf with the Caspian Sea via Tehran. To handle present oil output would require 2,500 tank cars daily, for which the tractive power, tank cars, yardage facilities, or unloading terminals do not exist. The construction of a pipe line to the south shore of the Caspian Sea would involve 500 miles of construction over two mountain ranges ranging from elevations of 8,000 to 12,000 feet. A thirty-inch pipe line over this route would

carry only half of Iran's output. Even then the oil would be far from the Soviet's industrial centers, and further transportation facilities consisting of tankers, pipe lines, and tank cars within the Soviet would need to be constructed.

The only other alternative would be the seizure of existing pipe lines in Iraq and Saudi Arabia to the Mediterranean coast. This would involve control of the eastern Mediterranean, requiring the conquest of Turkey, and possibly of Greece, and the expulsion of Western naval and air power from the eastern Mediterranean. Even then, pipe line control without tankers to carry the oil to the Black Sea by way of the Bosphorus would still mean no Middle East oil for the Russians.

In short, any extensive use of Iranian oil by Russia, whether in peace or in war, is essentially a long-range undertaking. In war, of course, we should do everything possible to prevent a transport system from operating; and our present efforts are aimed at achieving a settlement that will keep Iranian oil in the orbit of the West even in a peaceful future. The inability of the Iranians to divert the oil in the near future and their need for commodities to be obtained only through international sale of the oil hold some prospect that such a settlement may be effected.

Recent Economic Changes

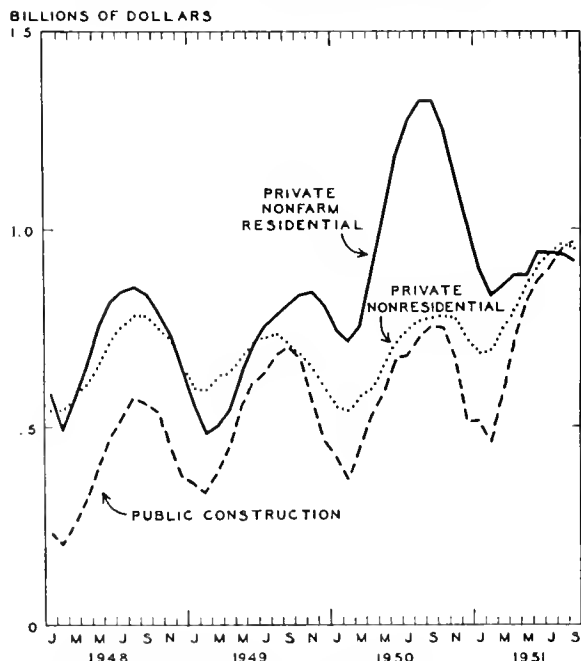
(Continued from page 5)

Construction Drops Slightly

There was a 1 percent drop in the value of new construction put in place during September from the August level. Materials shortages and government restrictions were cited as the causes. At \$2.8 billion, building activity was also about 1 percent below the September, 1950, level. At this time, however, movements of component groups are of more interest than the changes in the total. As shown in the accompanying chart, the value of private nonfarm residential construction failed by a substantial margin even to approach the 1950 peak, reaching a 1951

high of \$939 million during June, and then sliding off to \$915 million during September, 30.8 percent below last September's high level. Building restrictions are, of course, mainly directed at residential housing, in order to allow materials for more urgently needed construction. Private nonresidential building, which includes industrial, commercial, and public utilities construction, has climbed considerably over last year's level, totaling \$945 million during September. In contrast to both components of private construction, which declined slightly during September, public construction continued the climb which began last March. The "military and naval" category has showed the largest rise in recent months, both dollarwise and percentage-wise.

VALUE OF NEW CONSTRUCTION



Source: U. S. Department of Commerce.

Capital Expenditures Remain High

Plant and equipment expenditures for the fourth quarter, estimated at \$6.6 billion, represent a slight increase over the third quarter after adjustment is made for seasonal factors. According to the most recent joint survey by the Securities and Exchange Commission and the Department of Commerce, the fourth-quarter estimates reflect a slowing of the quarterly rate of increase, brought about chiefly by lowered allocations of essential materials and direct controls on construction. Because of a greater emphasis on facilities expansion, plant construction expenditures are expected to account for a larger share of the total. Of the total, \$3.6 billion was to be spent by manufacturing industries.

For the full year, capital spending is estimated at \$24.8 billion, substantially above the \$18.6 billion spent last year and the \$19.2 billion outlay of 1948, the previous record year. Such a total indicates that physical volume will be about 16 percent over 1948 and about 25 percent above last year. The year 1951 is expected to set a record for all groups listed in the survey, but commercial and miscellaneous enterprises are beginning to feel the restrictions on their building. Such companies showed a substantial decline in estimated expenditures during the second half of the year, whereas manufacturing industries, transportation, electric and gas utilities, and mining companies showed large advances.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Grain Supplies

The September issue of the *Agricultural Situation* contains a summary of estimates for grain crops in 1951-52. Supplies of food grains available in the 1951-52 marketing year and expected in 1952-53 are described as adequate to meet all anticipated demands. In the case of wheat, reserves are expected to increase by July 1, 1953. The 1951 corn crop was estimated in August at about 3.2 billion bushels, 2 percent larger than the 1950 crop and 8 percent above the 1940-49 average. In the Corn Belt production was up 6 percent. Smaller crops of other feed grains are in prospect, and while feed supplies appear adequate, further expansion in livestock production probably will make it necessary to draw on our reserve feed grain stocks. Indications are that larger crops will be in order next year.

Manufacturing in 1949

A series of reports on *1949 Manufacturing Activity by Geographic Divisions and Major Industry Groups* is now available without charge from either the Chicago or the Milwaukee office of the United States Department of Commerce. The report reveals that Illinois ranked first and Ohio second among the five East North Central States in terms of value added by manufacture in 1949.

Plastic Substitute for Metal

Production of a plastic material which has the appearance of metal and a mirror-like finish has been announced by Coating Products, Inc. (136 West 21st Street, New York, N.Y.). Designed for use by companies that utilize metal for decorative purposes but find that restrictions are cutting their supply, the material has already been used by a radio set manufacturer who substituted a gold metallic acetate for metal on radio cabinets. The acetate is laminated to board to give the appearance of the original metal part it replaced. Since the original part had no functional role other than being decorative, the effect is said to be the same as when a critical material is used.

Retailer's Short Cut

The average retailer hasn't the time to visit other stores and observe their selling practices, but *3033 Retailing Ideas* by Emanuel Lyon (\$3.95, published by E. Lyon, Pittston, N. J.) does it for him. Explaining that it takes imagination to stimulate consumer demand, the book describes advertising, sales, and promotion ideas for every kind of retail business.

Transformer Cooling Technique

A new Westinghouse cooling device has been announced that raises transformer output substantially. More power from electric transformers considerably lighter in weight is in prospect as a result of advances made public recently by the Westinghouse Electric Corporation. The limit on how much power a transformer can handle has been controlled to a large extent by the heat the unit generates in operation. The Westinghouse experimental unit delivers some 350 percent more power than normal capacity because it employs vaporization

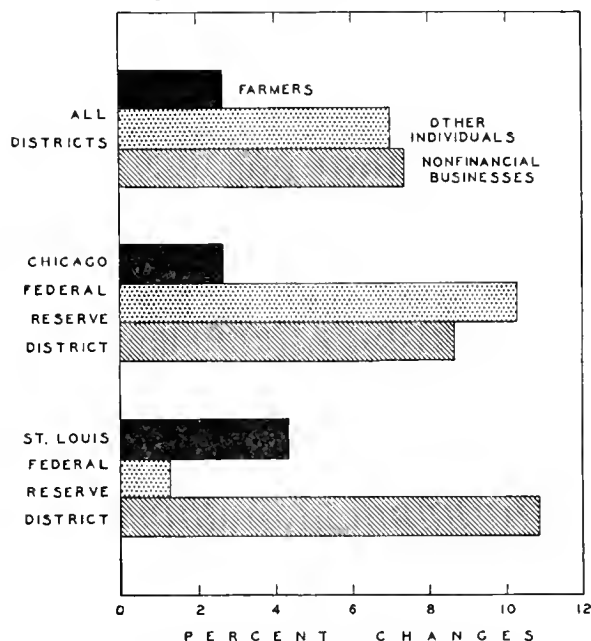
cooling that dissipates ten times more heat. The system cools the inner workings of big transformers by using a jet spray of synthetic liquid fluorocarbons. When the liquid vaporizes, it carries away the heat of the transformer. The vapors circulate to the cooling surfaces of the transformer tank, where they condense and release the heat and flow back to start the process over again. Previously such cooling has been achieved by immersing the core and coils in a bath of oil or by a flow of air past the coils. The new development is said to be the first basic change in transformer cooling since 1887.

Demand Deposits

The May supplement of the *Agricultural Finance Review*, published by the United States Department of Agriculture, contains an article comparing farmer-owned demand deposits with those of other depositors in the Federal Reserve districts. As shown by the chart, demand deposits owned by farmers in the United States as a whole increased by only 2.7 percent during the year ended January 31, 1951, as compared with increases of 7.0 percent and 7.4 percent in the deposits of other individuals and nonfinancial businesses. The same situation was found in Chicago and St. Louis, with the exception of the change in deposits of other individuals in St. Louis, which showed the lowest increase for this class of depositors in the twelve Federal Reserve districts.

The increase in farmer-owned demand deposits during 1950 reversed a trend of the preceding two years. Such deposits decreased 3.9 percent during the year ended January 31, 1950, whereas those of other individuals and nonfinancial businesses increased. All three classes of deposits showed decreases during the year ended January 31, 1949, with farm deposits declining 5.3 percent while those of other individuals fell 2.7 percent and business accounts dropped only 1 percent.

INCREASES IN DEMAND DEPOSITS IN INSURED COMMERCIAL BANKS



Source: *Federal Reserve Bulletin*, May, 1951.

LOCAL ILLINOIS DEVELOPMENTS

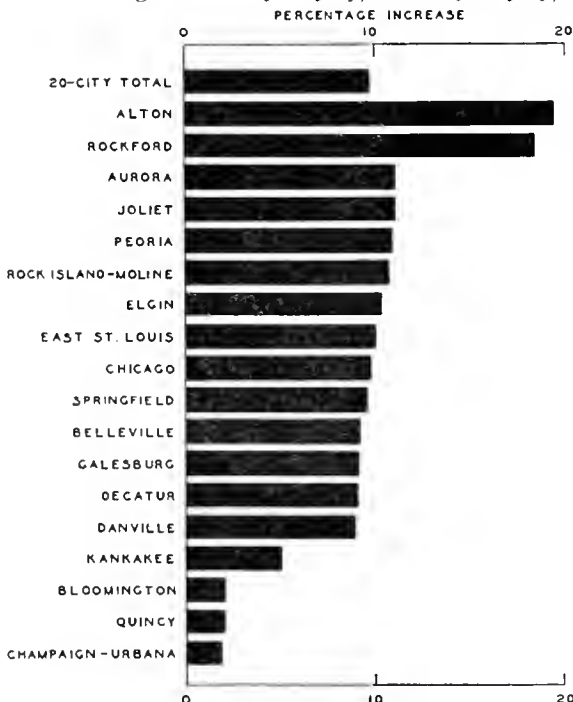
The chief indicators of industrial activity for the State show increases for the month of August. Electric power production rose by 6 percent, coal production by 50 percent, and the value of construction contract awards by 79 percent. Steel producers in the Chicago area operated at 102.2 percent of rated capacity, turning out an estimated 1,868,000 net tons of steel, or about one-fifth the total produced in the nation during August.

Retail Sales Lower

Estimated retail sales for 20 Illinois cities dropped during July from \$508 million to \$455 million, a decrease of 10.4 percent. Sizable declines over the month occurred in most of the cities, with the 11.4 percent drop in Chicago sales by far the most important. Much of the decline may be attributed to seasonal influences, as retail sales customarily drop off sometime during the summer months.

A year-to-year comparison of sales during the first seven months of 1950 and 1951 shows that retail selling activity this year exceeded that of last year by a substantial margin. As shown in the accompanying chart, estimated sales from January through July, 1951, were 9.7 percent over the corresponding period of 1950, representing a rise from \$3.2 billion to \$3.5 billion in dollar sales. Sales in Chicago, which account for the greater portion of the total, rose in dollar value from \$2.3 billion to \$2.6 billion, a 9.5 percent increase. All 20 cities included in the total showed gains, ranging from 19.0 percent for Alton to 3.7 percent for Champaign-Urbana. A look at the chart shows that four of the larger industrial centers of the State—Rockford, Joliet, Peoria, and Rock Island-Moline—had above-average advances. Sales increases in the majority of the smaller downstate shopping centers were lower than average.

RETAIL SALES IN 20 ILLINOIS CITIES
Percentage increase Jan.-July, 1950 to Jan.-July, 1951



Source: Illinois Department of Revenue.

Construction Up Sharply

Construction contracts awarded in the State during August showed a sharp rise, according to F. W. Dodge reports. At more than \$123 million, awards had advanced nearly 80 percent over the July level, and were 11.5 percent over August, 1950. From July to August, no residential building was marked by a 147 percent increase which chiefly reflected a 234 percent advance in contracts for commercial buildings and a 202 percent increase in manufacturing construction. Awards for residential building had risen by 58 percent, and public works and public utilities by 26 percent.

For the first eight months of 1951, awards totaled \$678 million, 4.1 percent over the corresponding period of 1950. A 6.2 percent increase in nonresidential building more than offset a 3.6 percent decline in residential construction.

Valuations of building permits issued, obtained from other sources, indicate that 12 of the 18 Illinois localities for which data are available had increases in building over the July level. Six communities even showed increases over August, 1950.

Mixed Price Movements

Prices in the State remained substantially level from July 15 to August 15 with some small declines. Consumer prices in Chicago were unchanged at 190.9 (1935-39 = 100). Decreases in housefurnishings and food prices were just offset by increased prices for miscellaneous goods and services. Food prices declined in all three of the Illinois cities reported by the Bureau of Labor Statistics: Chicago, by 0.8 percent; Peoria, by 1.2 percent; and Springfield, by 0.3 percent. Seasonal declines in fresh fruit and vegetable prices and lower prices for fats and oils were important factors in each case.

Prices received by Illinois farmers advanced slightly during the month ended August 15 from 305 to 306 (1910-14 = 100). Most of the component groups showed sizeable increases, the largest occurring in fruits. Prices paid remained unchanged; in consequence the parity ratio rose from 108 to 109.

Labor Difficulties

A number of labor disputes cropped up during August and September, chief among which was that at Caterpillar in Peoria. The strike of 22,000 workers over pay issues, which began July 29, was finally settled two months later. The new agreement calls for an hourly increase of 13.5 cents, a compromise between the 10 cents offered and the 19 cents demanded. Much shorter labor disputes also hit two other machinery manufacturers, Allis-Chalmers at Springfield, and the Farmall division of International Harvester at Rock Island. Jurisdictional disputes continue to hamper work on the Joppa power plant. Other work stoppages occurred at factories at Kankakee and Fairfield.

Nonagricultural employment during the mid-August survey period was down by about 3,000 from the July level to 1,195,800. However, the drop was caused by counting striking Caterpillar workers at Peoria as unemployed and does not indicate a real decline. Total nonagricultural employment was 3,216,900, 2.1 percent over August, 1950. In contrast to the 22,000 drop in the number of workers in nonelectrical machinery manufacturing, employment in most other manufacturing industries rose slightly.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

August, 1951

	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS	\$27,337 ^a	800,446 ^a	\$455,024 ^a		\$10,351 ^a	\$10,796 ^a
Percentage Change from.....	{ July, 1951... +41.3 Aug., 1950... -33.5	{ July, 1951... -0.7 Aug., 1950... +1.9	{ July, 1951... -10.4 Aug., 1950... -2.8	{ July, 1951... +19.3 Aug., 1950... -5.8	{ July, 1951... -0.6 Aug., 1950... +4.0	{ July, 1951... +10.0 Aug., 1950... +3.6
NORTHERN ILLINOIS						
Chicago	\$18,794	633,000	\$330,497		\$9,372	\$9,462
Percentage Change from.....	{ July, 1951... +64.0 Aug., 1950... -38.2	{ July, 1951... +0.8 Aug., 1950... +2.4	{ July, 1951... -11.4 Aug., 1950... -2.4	{ July, 1951... n.a. Aug., 1950... n.a.	{ July, 1951... -1.1 Aug., 1950... +3.8	{ July, 1951... +18.4 Aug., 1950... +3.5
Aurora	\$ 735	n.a.	\$6,435		\$ 41	\$ 77
Percentage Change from.....	{ July, 1951... +50.3 Aug., 1950... +49.7	{ July, 1951... -11.0 Aug., 1950... -2.3	{ July, 1951... +16.9 Aug., 1950... -6.4	{ July, 1951... +8.6 Aug., 1950... +6.4	{ July, 1951... +5.9 Aug., 1950... -3.8	{ July, 1951... +5.9 Aug., 1950... -3.8
Elgin	\$ 285	n.a.	\$4,630		\$ 27	\$ 80
Percentage Change from.....	{ July, 1951... +18.2 Aug., 1950... -77.4	{ July, 1951... -10.0 Aug., 1950... -4.8	{ July, 1951... +36.9 Aug., 1950... +10.1	{ July, 1951... +6.4 Aug., 1950... +6.8	{ July, 1951... +70.7 Aug., 1950... +8.4	{ July, 1951... +70.7 Aug., 1950... +8.4
Joliet	\$1,058	n.a.	\$8,740		\$ 49	\$ 65
Percentage Change from.....	{ July, 1951... +190.6 Aug., 1950... +216.8	{ July, 1951... -8.3 Aug., 1950... +2.1	{ July, 1951... +7.7 Aug., 1950... -4.7	{ July, 1951... +6.9 Aug., 1950... +13.9	{ July, 1951... +32.2 Aug., 1950... +33.6	{ July, 1951... +32.2 Aug., 1950... +33.6
Kankakee	\$ 264	n.a.	\$4,154		n.a.	\$ 28
Percentage Change from.....	{ July, 1951... +85.9 Aug., 1950... +164.0	{ July, 1951... -8.4 Aug., 1950... -8.4	{ July, 1951... +25.3 Aug., 1950... -6.0	{ July, 1951... n.a. Aug., 1950... n.a.	{ July, 1951... +1.4 Aug., 1950... -2.6	{ July, 1951... +1.4 Aug., 1950... -2.6
Rock Island-Moline	\$ 817	17,483	\$8,865		\$ 34 ^b	\$ 126
Percentage Change from.....	{ July, 1951... -75.7 Aug., 1950... -20.5	{ July, 1951... +5.8 Aug., 1950... +13.0	{ July, 1951... -7.6 Aug., 1950... -1.0	{ July, 1951... n.a. Aug., 1950... n.a.	{ July, 1951... +1.9 Aug., 1950... +11.4	{ July, 1951... +13.3 Aug., 1950... -4.1
Rockford	\$ 683	24,220	\$14,206		\$ 125	\$ 148
Percentage Change from.....	{ July, 1951... -4.2 Aug., 1950... -30.0	{ July, 1951... +10.8 Aug., 1950... +6.8	{ July, 1951... +19.2 Aug., 1950... -3.6	{ July, 1951... +3.2 Aug., 1950... +16.0	{ July, 1951... +15.2 Aug., 1950... +8.9	{ July, 1951... +15.2 Aug., 1950... +8.9
CENTRAL ILLINOIS						
Bloomington	n.a.	4,990	\$4,600		\$ 46	\$ 89
Percentage Change from.....	{ July, 1951... -4.7 Aug., 1950... +7.3	{ July, 1951... -10.2 Aug., 1950... -11.8	{ July, 1951... n.a. Aug., 1950... n.a.	{ July, 1951... -4.2 Aug., 1950... +1.9	{ July, 1951... +30.4 Aug., 1950... +26.0	{ July, 1951... +30.4 Aug., 1950... +26.0
Champaign-Urbana	\$ 449	6,345	\$6,053		\$ 48	\$ 64
Percentage Change from.....	{ July, 1951... +148.1 Aug., 1950... -42.4	{ July, 1951... -8.9 Aug., 1950... +2.2	{ July, 1951... -15.0 Aug., 1950... -11.3	{ July, 1951... n.a. Aug., 1950... n.a.	{ July, 1951... +0.1 Aug., 1950... +2.3	{ July, 1951... +22.1 Aug., 1950... +7.4
Danville	\$ 136	7,480	\$5,289		\$ 41	\$ 44
Percentage Change from.....	{ July, 1951... -22.7 Aug., 1950... -48.5	{ July, 1951... +9.0 Aug., 1950... +2.8	{ July, 1951... +29.9 Aug., 1950... -4.2	{ July, 1951... +7.5 Aug., 1950... +7.5	{ July, 1951... -4.1 Aug., 1950... -7.2	{ July, 1951... -4.1 Aug., 1950... -7.2
Decatur	\$1,087	17,052	\$8,468		\$ 76	\$ 83
Percentage Change from.....	{ July, 1951... +341.9 Aug., 1950... -37.4	{ July, 1951... -9.7 Aug., 1950... +1.0	{ July, 1951... +14.4 Aug., 1950... -8.3	{ July, 1951... +8.6 Aug., 1950... -4.5	{ July, 1951... +6.8 Aug., 1950... +10.9	{ July, 1951... +6.8 Aug., 1950... +10.9
Galesburg	\$ 302	5,349	\$3,602		n.a.	\$ 27
Percentage Change from.....	{ July, 1951... +134.1 Aug., 1950... -22.8	{ July, 1951... +0.5 Aug., 1950... +11.0	{ July, 1951... -10.2 Aug., 1950... -7.1	{ July, 1951... n.a. Aug., 1950... n.a.	{ July, 1951... -4.2 Aug., 1950... +8.3	{ July, 1951... -4.2 Aug., 1950... +8.3
Peoria	\$1,132	26,233 ^c	\$16,076		\$ 200	\$ 155
Percentage Change from.....	{ July, 1951... +40.8 Aug., 1950... -39.2	{ July, 1951... -38.4 Aug., 1950... -31.9	{ July, 1951... +10.4 Aug., 1950... -10.7	{ July, 1951... +0.0 Aug., 1950... -3.8	{ July, 1951... -8.4 Aug., 1950... -6.2	{ July, 1951... -8.4 Aug., 1950... -6.2
Quincy	\$ 230	7,319	\$4,360		\$ 33	\$ 69
Percentage Change from.....	{ July, 1951... +7.5 Aug., 1950... +19.2	{ July, 1951... +10.9 Aug., 1950... +13.4	{ July, 1951... +26.0 Aug., 1950... -10.0	{ July, 1951... +6.3 Aug., 1950... +4.5	{ July, 1951... +31.3 Aug., 1950... -3.2	{ July, 1951... +31.3 Aug., 1950... -3.2
Springfield	\$ 445	22,774 ^c	\$12,494		\$ 84	\$ 169
Percentage Change from.....	{ July, 1951... +66.7 Aug., 1950... +39.9	{ July, 1951... +3.6 Aug., 1950... +12.5	{ July, 1951... +12.0 Aug., 1950... -2.4	{ July, 1951... +5.0 Aug., 1950... +5.7	{ July, 1951... +1.5 Aug., 1950... -1.1	{ July, 1951... +1.5 Aug., 1950... -1.1
SOUTHERN ILLINOIS						
East St. Louis	\$ 207	12,352	\$8,486		\$ 146	\$ 47
Percentage Change from.....	{ July, 1951... n.a. Aug., 1950... -30.5	{ July, 1951... +14.1 Aug., 1950... +29.1	{ July, 1951... -3.8 Aug., 1950... -0.8	{ July, 1951... n.a. Aug., 1950... n.a.	{ July, 1951... +17.6 Aug., 1950... +15.0	{ July, 1951... +15.3 Aug., 1950... +2.5
Alton	\$ 134	11,022	\$4,137		\$ 29	\$ 24
Percentage Change from.....	{ July, 1951... -37.1 Aug., 1950... -60.0	{ July, 1951... +4.4 Aug., 1950... +2.1	{ July, 1951... -6.4 Aug., 1950... -6.0	{ July, 1951... n.a. Aug., 1950... n.a.	{ July, 1951... +3.8 Aug., 1950... +13.6	{ July, 1951... +27.3 Aug., 1950... +16.4
Belleville	\$ 582	4,826	\$39,322		n.a.	\$ 37
Percentage Change from.....	{ July, 1951... +487.9 Aug., 1950... +175.8	{ July, 1951... +13.0 Aug., 1950... +11.8	{ July, 1951... -1.3 Aug., 1950... -0.8	{ July, 1951... n.a. Aug., 1950... n.a.	{ July, 1951... +15.6 Aug., 1950... +10.7	{ July, 1951... +15.6 Aug., 1950... +10.7

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for July, 1951, the most recent available. Comparisons relate to June, 1951. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

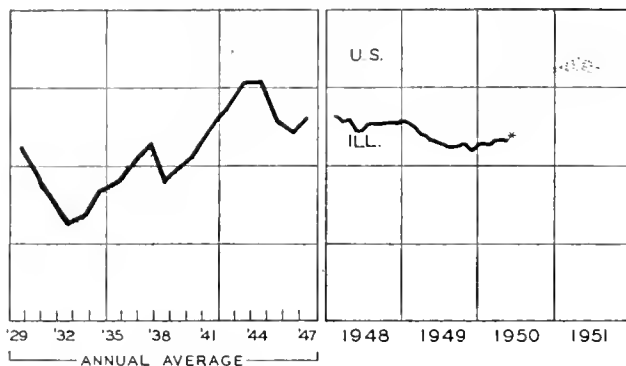
^c Includes immediately surrounding territory.

n.a. Not available.

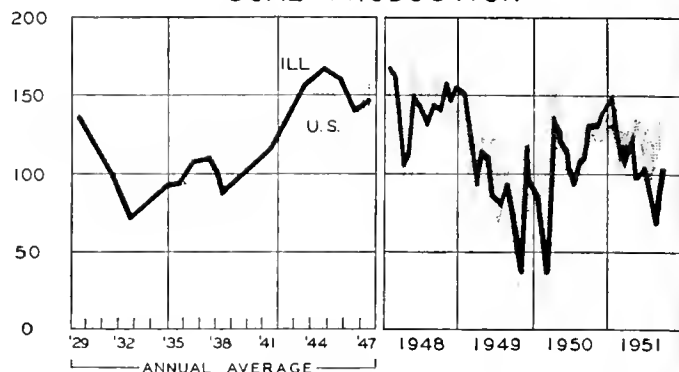
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

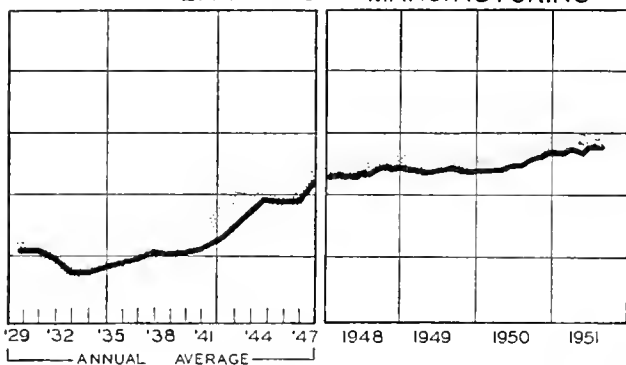
EMPLOYMENT-MANUFACTURING



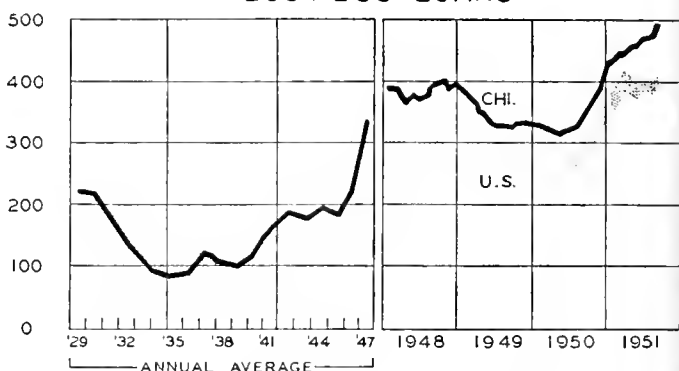
COAL PRODUCTION



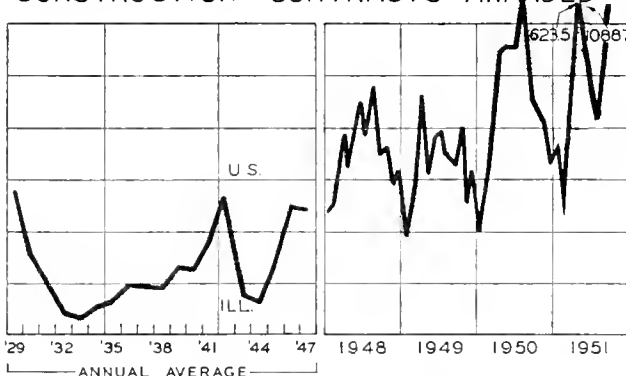
AVG. WKLY. EARNINGS - MANUFACTURING



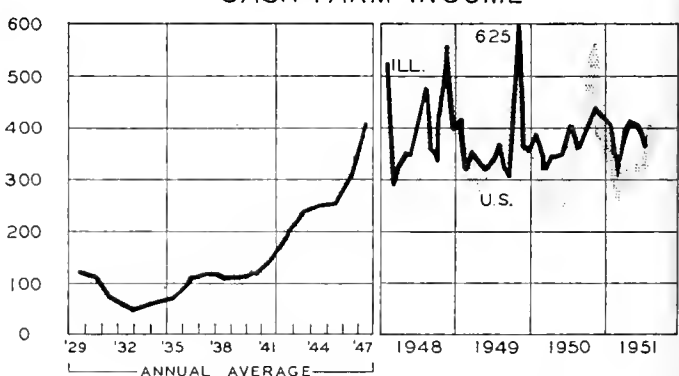
BUSINESS LOANS



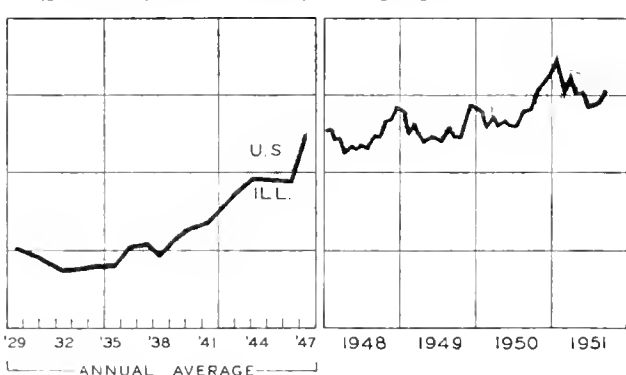
CONSTRUCTION CONTRACTS AWARDED



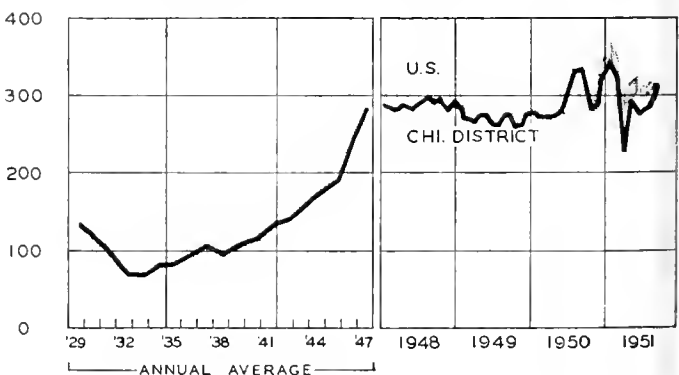
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



* Illinois figures being revised.

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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HIGHLIGHTS OF BUSINESS IN OCTOBER

The economy entered the fall of 1951 in high gear and October gave every indication that conditions would continue favorable. Nonfarm employment maintained its postwar high, and unemployment continued at a low of 1.6 million for October.

Total industrial production in October remained at about the September figure of 219 percent of the 1935-39 average, as military production continued to supplant the output of consumer goods. Two new production records were set. In the last week of the month electric power output reached 7,234 million kilowatt hours, and the steel industry operated at 104.5 percent of capacity to produce a record of 2.1 million tons of ingots in a single week.

Consumer Income and Expenditures

Consumer income continued to rise and indications are that retail sales may be heading for that long-awaited pickup, with department store sales throughout the month showing consistently larger gains over the corresponding weeks of last October. A large backlog of purchasing power is available for spending. In the past six months consumers have been saving about 10 percent of their disposable income, more than double the aggregate saved during the years 1947-1950.

At the same time, the amount of goods available to consumers is down sharply. Some idea of the extent to which consumer goods production has been cut by the military program is furnished by a new index of the output of major consumer durables constructed by the Federal Reserve Board (see p. 5). The index shows a decline in the production of major consumer durables in August, 1951, of almost 40 percent from the pre-Korea peak of June, 1950. For radio and television sets, the decline was 70 percent.

Price Trends Mixed

Wholesale prices were down slightly in October, but consumer prices advanced further and agricultural prices turned upward again. Prices received by farmers rose two percent in the month ended October 15, thereby reversing the downward trend begun last March. The parity ratio was up two points to 105.

On the strength of a 2.7 percent increase in apparel prices, the consumers' price index for September 15 registered the largest monthly gain since last February. Up

1.1 points to 186.6 percent of the 1935-39 average, the rise assures automatic pay increases for thousands of workers.

The latest study by Congress resulted in complete vindication of the consumers' price index. After investigating various industry and labor complaints, a House Labor subcommittee reported the index to be excellent and "fundamentally sound." Union complaints that the index did not measure quality deterioration and industry complaints that the index failed to record quality improvement were dismissed, as were union arguments that income taxes be included as a cost-of-living item.

Construction Activity Declines

Materials shortages, mainly scarcity of structural steel, kept the total value of new construction put in place during October down to \$2.7 billion. This is 5 percent below the September figure, a more-than-seasonal decline. Construction expenditures in all categories but residential, military, and defense plant building were down.

New construction in the first ten months of this year, at \$25 billion, is nevertheless well ahead of the corresponding period of last year, and the year's total stands to exceed the record \$28 billion of new construction put in place in 1950. Public projects, particularly for housing, defense plants, and military construction more than account for the increase.

Unfilled Orders Down

For the first time in two years, unfilled orders on the books of manufacturers declined. New orders received by manufacturers in September declined nearly 7 percent to \$21.3 billion. Sales dropped also, but only to \$21.8 billion, so that unfilled orders were down by half a billion dollars in the month. Most of the decline occurred in the durable-goods industries. At \$56.8 billion, unfilled orders of all manufacturers in September exceeded the September, 1950, figure by over 60 percent. Nearly nine-tenths of these orders were on the books of durable-goods manufacturers.

Inventory holdings of manufacturers rose by \$400 million on a seasonally-adjusted basis to \$40.5 billion. The increase was one of the smallest in recent months and was largely concentrated in heavy defense industries, particularly in transportation equipment. Inventories in the hands of nondurable-goods manufacturers have been fairly steady at \$19.4 billion for the last three months.

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New Crisis for Britain

The British balance-of-payment crisis illustrates the kind of problem most European countries face as a result of international tension and rearmament. In the third quarter of this year, Great Britain and the countries making up the Sterling Area ran an international deficit that drew down their gold and dollar reserves by \$600 million — almost one-sixth of the total held.

How much the developing crisis contributed to the displacement of the Labor Party in Britain's October election is hard to estimate. An interesting aspect of the election is that the Conservative Party won with a lower popular vote than the Labor Party, which obtained more votes than ever before, both in number and in percent of the total. The Conservatives' position now is not much more secure than Labor's had been, since their margin of seats in the House of Commons is only slightly higher than Labor held in 1950. Making it even more precarious are the present economic difficulties, which are deep-rooted and well-nigh insoluble under present conditions; so the Conservative Party appears liable to incur public disfavor in a new period of tension and frustration.

Causes of the British Crisis

Superficially, the present situation in Britain is not unlike the earlier postwar conditions of world-wide shortage commonly referred to as the "dollar gap." Needs for supplies from abroad are great, beyond the immediate ability to finance. This was the problem that the Marshall plan was designed to solve, though only through a "temporary" period of reconstruction and recovery. Now again substantial deficits appear, and "the emergency" seems to be as serious as ever.

Does this mean that our foreign aid program has failed? No, for recovery has carried production to new highs in the aided countries, often exceeding the goals it was hoped to achieve. In Great Britain, the index of industrial production rose 40 percent from 1946 to 1950, and the first half of 1951 was up another 5 percent over the first half of 1950.

Why, then, do these countries continually find themselves in emergencies of overwhelming need? The answer lies not in any failure of production but in the fact that new demands have been added. The requirements of a new war program have been imposed before the shortages created by the last one were worked off.

In a country like Britain, which is almost completely dependent on imports of raw materials, there is no alternative to buying abroad at the prices world markets demand. In the first nine months of 1951, United Kingdom imports cost over \$8 billion, or about half again as much as in the same period of 1950. The volume of imports was about 15 percent higher; the rest of the increased cost was due to higher prices.

Part of the increase in import volume was due to defense needs. A portion of the imported materials went into strategic stockpiles and industrial inventories. The problem of keeping British industries going during a war is much more difficult than ours; and if we are now justified in stockpiling, they are much more so.

The increase in import prices was also the result of rearmament. In the latter part of 1950, the United States government hastened procurement of materials for stockpiles as well as for immediate use; and private buyers also jumped in, forcing the prices of many commodities up beyond anything that had been experienced in the past. At first, the upsurge in material prices resulted in gains for the Sterling Area, since some of its outlying countries are important producers of such commodities as rubber, tin, and wool. However, prices of these commodities have since dropped back sharply, while prices of other important commodities that are entirely imported have continued firm.

United Kingdom exports also rose in 1951, but the additional receipts from this source were not much more than a third of the additional cost of imports.

In recent months, exports to the United States have been hampered by the inventory readjustment now going forward in many industries. We had been buying to excess and, as in the inventory decline of 1949, our imports have now been cut back to prevent accumulation of unwanted goods. This cuts the export earnings not only of Britain, but of almost all the rest of the world.

This readjustment is temporary, of course, as it was in 1949, and with the recovery that may be expected here soon, purchases from abroad should also expand. This shift, together with the fact that the large third-quarter deficit of the Sterling Area included seasonal elements — such as heavy payments for United States cotton and tobacco and low dollar receipts from wool and cocoa — will somewhat ease, though not solve, the balance-of-payments problem that now exists. It is a situation in which, without turning a hand, the Conservatives will be able to claim some success in dealing with the emergency.

Moreover, the United States will probably make additional funds available through the foreign aid program. That program was cut when Britain was accumulating dollar reserves rapidly. Now that the situation has reversed, there will again be a basis for providing assistance.

No Easy Way Out

Many of these developments are not peculiar to the British situation but present equally serious problems to most of Western Europe. Raw material shortages and high prices strike with the same impact everywhere.

In this country, the rearmament program merely changes what would be a moderately deflationary period into a moderately inflationary one. In Europe, it adds inflationary demands to an already inflationary situation.

Our wholesale prices average less than 15 percent higher than they were just before Korea. In most European countries, they range about 25 to 35 percent higher. Here, prices have tended to stabilize; there, they have

(Continued on page 6)

ILLINOIS AND FOREIGN TRADE

Many people are unaware that foreign trade may be as important to inland areas as it is to the bustling seaport towns of the nation's east and west coasts. As one of the largest producers of major agricultural and industrial export commodities among the states, Illinois is significantly affected by international commerce.

It has been estimated that 1.7 million American non-agricultural workers were dependent upon exports for their employment in 1949. Although no statistics are available which give exact figures dealing with the export of goods produced in Illinois, foreign trade is responsible for the employment of many thousands of workers in the State and plays a vital part in its industrial prosperity.

Manufactured Products

The Department of Commerce recently listed the twelve leading Illinois industries producing goods which the United States exports in greater volume than it imports. They include metal stamping and coating; the manufacture of primary metals; electrical, metal-working, and farm machinery; service industry and household machines; and production of instruments, furniture, railroad equipment, and motor vehicles.

Assuming that Illinois shares in the national export trade in proportion to its importance as a producer, the Department of Commerce estimates that in recent years the value of exports manufactured in Illinois by the industries mentioned has been about \$460 million annually, almost 15 percent of their national export total.

Perhaps the most significant Illinois industrial export is farm machinery. In 1947 Illinois manufacturers were responsible for almost 50 percent of the value of the tractors and other agricultural equipment exported. Illinois is the nation's leading producer of these goods and sends about 20 percent of its total yearly dollar volume abroad.

Of course, many other industries in the State are on an export basis nationally. There are also many commodities manufactured in Illinois, such as machinery parts, automobile accessories, electric motors, and textiles, which are used in the production of export goods, although they may not enter directly into foreign trade.

Agricultural Exports

A large part of American farm production is normally sold abroad. An outstanding agricultural state, Illinois is a leading producer of a number of farm export commodities. The seven major Illinois farm products are corn, soybeans, wheat, oats, hogs, dairy products, and eggs. Illinois exports in this group in 1947 were valued at \$135 million, 8 percent of the national total.

Approximately 35 percent of our total dollar volume of soybeans and soybean products exported in 1949 came from Illinois, the nation's leading producer and processor of this important farm commodity. Its \$45 million soybean exports represented 24 percent of the total value of the Illinois crop for the year.

The Department of Commerce estimates that Illinois

exports of wheat and wheat products in 1949 were worth \$30 million, 35 percent of the total value of the State's wheat crop. In the same year, the value of Illinois corn and corn products sold abroad was also estimated at \$30 million, 14 percent of the amount for the nation as a whole but only 5 percent of the Illinois crop total. A considerable quantity of Illinois corn was exported in the form of meat products. In 1949 the State was said to be responsible for 17 percent of the value of total national meat exports.

Importing Vital Materials

Almost every large industry in the nation depends upon foreign trade to supply at least some of its essential raw materials. As the nation's third most important industrial state (in 1947 ranking after New York and Pennsylvania in value added by manufacturing), Illinois is an outstanding consumer of many imported items.

The clock and watch industry obtains jewel bearings from abroad; Illinois soap manufacturers use imported copra and coconut oil; and firms producing medicines need a number of imported drugs. Illinois ranks first in the nation in the production of confectionery products, many of which could not be made without imported cocoa beans for chocolate; it also leads in the manufacture of paint and allied products for which shellac and other materials are imported, as well as in printing and publishing, industries which rely on large imports of newsprint.

Imports are of primary significance to the many Illinois industries using iron and steel, since the United States has practically no nickel or chromate, and inadequate supplies of tungsten, manganese, and other raw materials essential to foundry operations.

The Port of Chicago

The location of Illinois as a key center of railroad, inland waterway, and highway transportation has resulted in extensive commercial and financial interests within the State which benefit materially from international commerce.

In addition to the Illinois manufacturers producing exports, a large number of enterprises, including exporting and importing firms, railroads, steamship lines, motor transportation companies, warehouses, banks, and insurance companies, receive a substantial portion of their income from moving, storing, and financing foreign trade. In 1949 the total value of imports and exports moving through the Chicago Customs District amounted to nearly \$125 million.

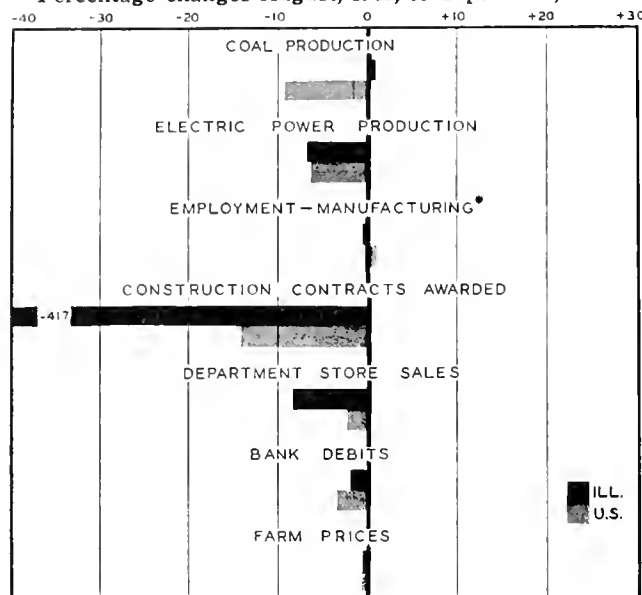
Most Illinois residents probably do not realize that a greater tonnage of foreign trade is entered and cleared at the city of Chicago than at many ocean ports. Completion of the St. Lawrence seaway would make the port of Chicago accessible to even the largest ocean-going vessels and make possible direct shipment of the products of Illinois industry to any of the world's great seaports.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes August, 1951, to September, 1951



* July, 1951, to August, 1951

ILLINOIS BUSINESS INDEXES

Item	September 1951 (1935-39 = 100)	Percentage Change from	
		August 1951	Sept. 1950
Electric power ¹	285.5	- 6.7	+ 0.8
Coal production ²	106.3	+ 0.9	-18.8
Employment—manufacturing ³ ..	n.a.	- 0.6 ^a	+ 0.8 ^b
Payrolls—mfg.	n.a.	.....	.....
Dept. store sales in Chicago ⁴	234.4 ^c	- 8.3	- 0.4
Consumer prices in Chicago ⁵	191.8 ^d	+ 0.5	+ 6.7
Construction contracts awarded ⁶	432.6	-41.7	-11.8
Bank debits ⁷	325.6	- 1.9	+ 0.3
Farm prices ⁸	274.6	- 0.3	+11.7
Life insurance sales (ordinary) ⁹..	.....	.....	.....
Petroleum production ¹⁰	220.0	- 2.5	- 3.7

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.
^a July to August, 1951. ^b August, 1950, to August, 1951. ^c Seasonally adjusted. ^d New series. Old series index for September was 192.8. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	September 1951	Percentage Change from	
		August 1951	Sept. 1950
Personal income ¹	253.3	- 0.4	+ 9.4
Manufacturing ¹	250.8 ^a	- 4.1	+ 4.0
Sales.....	49.2 ^{a, b}	+ 1.2	+36.2
New construction activity ¹			
Private residential.....	11.0	- 1.9	-30.8
Private nonresidential.....	11.3	- 1.6	+22.2
Total public.....	11.6	+ 1.7	+28.3
Foreign trade ¹			
Merchandise exports.....	14.8	- 2.9	+35.1
Merchandise imports.....	8.8	-16.5	-14.7
Excess of exports.....	6.0	+28.2	+906.7
Consumer credit outstanding ²			
Total credit.....	19.4 ^b	+ 0.5	+ 0.1
Installment credit.....	13.2 ^b	+ 0.8	- 1.4
Business loans ³	20.0 ^b	+ 3.0	+27.7
Cash farm income ³	40.8	+14.0	+14.8
Indexes (1935-39 = 100)			
Industrial production ²			
Combined index.....	219 ^a	+ 0.9	+ 3.8
Durable manufactures.....	273 ^a	+ 1.9	+ 8.8
Nondurable manufactures.....	192 ^a	- 0.5	- 1.0
Minerals.....	169 ^a	+ 1.8	+ 3.7
Manufacturing employment ²			
Production workers.....	163 ^a	- 0.6	+ 0.5
Factory worker earnings ⁴			
Average hours worked.....	108	+ 0.2	- 1.2
Average hourly earnings.....	270	+ 0.9	+ 9.0
Average weekly earnings.....	291	+ 1.1	+ 7.7
Construction contracts awarded ⁵	458	-14.3	-15.8
Department store sales ²	312 ^a	- 2.2	- 2.2
Consumers' price index ⁴	187 ^c	+ 0.6	+ 6.9
Wholesale prices ⁴			
All commodities.....	220	- 0.2	+ 4.8
Farm products.....	249	- 0.7	+ 4.9
Foods.....	238	+ 0.4	+ 6.1
Other.....	206	- 0.2	+ 4.8
Farm prices ³			
Received by farmers.....	272	- 0.4	+ 7.0
Paid by farmers.....	226	0.0	+ 8.5
Parity ratio.....	103 ^d	- 1.0	- 1.9

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b As of end of month. ^c New series 186.6; old series 186.5. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1951					1950
	Oct. 27	Oct. 20	Oct. 13	Oct. 6	Sept. 29	Oct. 28
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,923	1,893	1,828	1,811	1,846	1,954
Electric power by utilities.....mil. of kw-hr.....	7,234	7,149	7,160	7,156	7,102	6,563
Motor vehicles (Wards).....number in thous.....	114,579	114,347	114,479	106,359	107,306	179,598
Petroleum (daily avg.).....thous. bbl.....	6,257	6,271	6,248	6,257	6,223	5,823
Steel.....1935-39 = 100.....	230.4	228.6	228.0	229.8	228.6	221.7
Freight carloadings.....thous. of cars.....	864	887	869	859	865	888
Department store sales.....1935-39 = 100.....	327	334	338	318	328	313
Commodity prices, wholesale:						
All commodities.....1926 = 100.....	177.1	177.7	177.4	177.1	176.7	169.2
Other than farm products and foods..1926 = 100.....	165.1	165.1	165.0	165.2	165.1	161.5
28 commodities.....August, 1939 = 100.....	328.8	329.7	331.4	333.9	329.0	332.2
Finance:						
Business loans.....mil. of dol.....	20,472	20,489	20,314	20,171	20,078	16,322
Failures, industrial and commercial ..number.....	155	157	126	133	154	160

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Steady

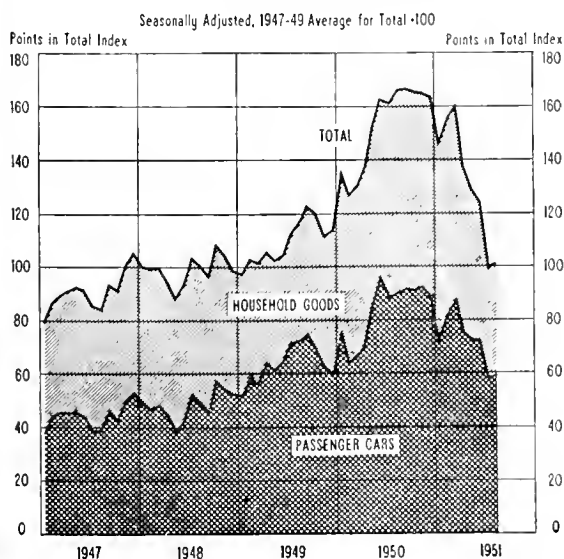
Industrial production remained unchanged during October at the September rate of 219 (1935-39 = 100), according to preliminary estimates of the Federal Reserve Board. Steel production was well maintained during the month; the average operating rate was 102.8 percent of capacity, or about 2,055,000 net tons of ingots and castings weekly. For the week of October 28, production was scheduled at 104.5 percent of rated capacity, the highest operating rate on record. Weekly output of automobiles and trucks remained below 115,000 during the month, and total output for October was estimated at 515,000 vehicles, somewhat above September, when several plants had to close because of materials shortages.

New Consumer Durables Index

In view of their growing importance in the national production picture, a new measure of the output of major consumer durable goods has been introduced by the Federal Reserve Board. Changes in the demand and supply of such items are especially important in the expansion and contraction of consumer credit, and consequently in the administration of Regulation W. Passenger automobiles receive a weight of 52 percent of the total in the new index, and major household goods — such as carpets, furniture, radio and television receivers, and other major appliances — are assigned a weight of 48 percent.

As illustrated in the accompanying chart, output of consumers' durable goods has been cut drastically since early 1951 from the high levels of late 1950. At that time demand was abnormally high and materials were available. Since March of this year, however, demand has slackened considerably and materials for some durables have been increasingly tight, so that production in August was only about two-thirds as high as the previous peak level. It is interesting to note that, whereas automobiles accounted for about 50 percent of the total production of major consumer durables at the beginning of 1947, they now account for approximately 60 percent.

OUTPUT OF MAJOR CONSUMER DURABLE GOODS



Source: Federal Reserve Board.

Employment Rises

Additional employment of 250,000 workers, about evenly divided between agricultural and nonagricultural jobs, raised total employment to 61.8 million during the October survey week. At that level employment was a little above October, 1950, but was still considerably under the 1951 high of 62.6 million reached in August.

Bureau of Census data, in thousands of workers, are as follows:

	October 1951	September 1951	October 1950
Civilian labor force.....	63,452	63,186	63,704
Employment.....	61,836	61,580	61,764
Agricultural.....	7,668	7,526	8,491
Nonagricultural.....	54,168	54,054	53,273
Unemployment.....	1,616	1,606	1,940

Several labor difficulties, of greater or lesser importance, arose during October. The chief dispute was that involving longshoremen at the port of New York and later at other East Coast ports. In question was the validity of a new contract previously negotiated, signed, and ratified; 30,000 longshoremen disputed the method of ratification, and backed up their disagreement with a wild-cat strike. Elsewhere strikes and stoppages of varying length and magnitude hit Douglas and Wright in aircraft manufacture; Goodrich, Firestone, Lee, and U. S. Rubber in the rubber industry; Borg-Warner in auto parts; Inland Steel, and Youngstown Sheet and Tube Co.; and AEC plants at Oak Ridge, Hanford, and Paducah. Except for the shipping strike, none of these disputes was serious, and attention has been turned to negotiations of a new contract for steel workers.

Sizable Drop in Construction

New construction put in place during October dropped more than seasonally to \$2.7 billion. Almost all types of construction were cut by materials shortages and contributed to the 5 percent decline in the total. Structural steel was cited as an important bottleneck forcing the general cut. Expansion programs even in such basic industries as steel and electric power were hindered by the material shortage.

Military and defense construction again showed a small increase over the previous month. A reversal appeared in the downward trend in home building, with a 6 percent rise from September to October to \$830 million.

Small Price Changes

Price changes during October were generally small. The BLS index of 28 sensitive commodity prices was off by 0.9 percent; fractional increases in prices of domestic, farm, and industrial products were more than offset by drops in import and food prices. The weekly wholesale price index of about 100 commodities remained steady at 177 percent (1926 = 100). With the exception of textile prices, which dropped 1.2 percent, changes were fractional.

Farm prices, up 2 percent to 296 (1910-14 = 100) in the month ended October 15, showed the largest shift. Increases in prices of cotton and dairy products were chiefly responsible. Since prices paid rose only by 1 index point to 283, the parity ratio rose from 103 to 105.

Consumers' prices advanced from August 15 to September 15, rising 0.6 percent to 186.6 (1935-39 = 100). All component groups showed increases; apparel prices were up 2.7 percent; other groups rose fractionally.

Drop in Sales

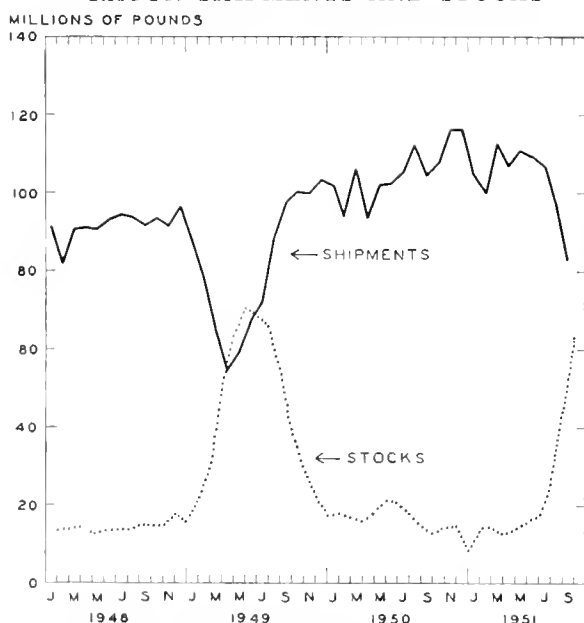
Sales were off in September for both manufacturers and retailers. Manufacturers' sales dropped 4 percent from the August level to \$20.9 billion after seasonal adjustment. Lower sales of automobiles were the chief factor in a 6 percent decline in durables sales to \$9.5 billion. All the component groups in nondurables sales shared in a 3 percent reduction in the total. Stocks on hand expanded by \$400 million, one of the smallest increases in the past few months; most of the additions to inventories appeared in defense industries. At \$41.0 billion, stocks had reached the highest dollar value on record. New orders were down by 6 percent to \$21.3 billion, chiefly because of lower orders for nondurable goods. Unfilled orders dropped for the first time in more than two years.

Retail sales dropped 1 percent during September to \$12.3 billion, so that sales have now been substantially level for the last six months. Changes in most retail groups were small, but for general merchandise, apparel, and building materials and hardware declines reached 3 or 4 percent.

Rayon Again in Difficulty

For the second time since the end of the war, the rayon industry is finding itself in sore straits. Shipments of yarn and staple fiber have fallen sharply since the beginning of the year to 82.1 million pounds in September 1950, when a postwar high was reached, shipments averaged 113.4 million pounds. Despite some cutbacks in production and mill closings, the cut in consumption has boosted inventories from a low of 12.3 million pounds in the fourth quarter last year to 62.9 million pounds at the end of September. Various reasons are advanced for the slump: earlier excessive buying on the basis of expected shortages which failed to appear; a consumer preoccupation with durable goods; competition from newer synthetic fibers; and style changes too minor to stimulate purchases.

RAYON SHIPMENTS AND STOCKS



Source: U. S. Dept. of Commerce.

New Crisis for Britain

(Continued from page 2)

continued to move up. Resumption of the advance in this country will tend to force prices of materials on world markets up further, keeping their production costs on the upward spiral.

The terms on which they exchange their exports and imports are very important to them. To us, import prices are not a matter of major concern. They do raise costs in specific industries, but we are largely self-sufficient; and to the extent that dollar receipts are held as reserves rather than used to purchase goods here, they tend to stabilize rather than advance our price level.

The more rapid rate of price advance in other countries has tended to depreciate their currencies on the so-called "free" markets. As a result, there are continued rumors that Britain will deal with the emergency by another round of devaluation in the near future. However, as was pointed out in these pages two years ago (October, 1949), devaluation is an inflationary measure and can only aggravate the pressures of the present inflationary situation. It increases the prices of everything Britain buys from abroad, and only as a consequence of higher prices does it tend to restrict consumption. In other words, the only way devaluation can be effective is by helping inflation to run its course, squeezing the purchasing power of all whose incomes cannot keep up with rising prices. This is the path to chaos; and Churchill has forcefully denied any intention of devaluing. There is, in fact, more to be said for revaluation than for further devaluation at this time.

Other proposed measures will probably be no more effective for the Conservatives than for the Labor government just turned out of office. Import and exchange controls can be tightened but will meet the same resistances. Some internal expenditure programs can be reduced, and consumption can be restricted to a limited extent by controls of one kind or another. Production may be increased somewhat, and additional exports encouraged, but experience has shown that obtaining gains in this way is a slow process.

The one distinctive measure proposed by the Conservatives is the denationalization of the steel industry. This move is not calculated, of course, to produce any additional steel in itself but is rather presumed to be a means of restoring confidence. If this should somehow lead to an expansion of capital expenditures, however, it would be of dubious advantage in a period of inflation.

In short, there is no easy way out of the difficulties which Britain faces. As long as international conditions continue unchanged, inflationary pressures will continue.

It is perhaps with this in mind that Mr. Churchill proposes new high-level negotiations for relieving the tensions of the cold war. In so doing he correctly looks for the key to the puzzle outside rather than inside his own economy. Whether he can produce a bargain acceptable to the Soviet Union is a question. Still another question is whether he can bring about another major reorientation of sentiment in this country; but the results of his previous efforts, beginning with the Fulton Speech, may afford him some hope in this respect. Turning the tide of world affairs at this juncture would be a magnificent venture. On its success may hang not only the solution of Britain's problems but the fate of the civilized world as we have known it.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Walsh-Healey Act

As a service to small businessmen who may be unfamiliar with the Walsh-Healey Act, which controls the conditions of labor in companies having government contracts, the Department of Commerce has prepared *Defense Production Aid #15*. The pamphlet explains how the Act generally applies to all prime and secondary contracts in excess of \$10,000 let by the government for "materials, supplies, articles, or equipment." It discusses coverage of employees of secondary contractors, minimum wage requirements, overtime compensation, child labor restrictions, safety and health standards, and record-keeping and posting requirements. Copies are available without charge from the Milwaukee and Chicago offices of the United States Department of Commerce.

Glass Fiber Dyeing Process

The combined research efforts of the General Dye-stuff Corporation, General Aniline and Film Corporation, and the Owens-Corning Fiberglass Corporation has resulted in a new process for dyeing fibrous glass without reducing flame resistance and at the same time increasing wash-fastness, abrasion resistance, and the draping quality of the material. Glass fiber piece goods are especially desirable for decorative purposes because the non-combustible quality of glass makes them ideal for draperies. The difficulty of developing a suitable dyeing process for glass fibers, which have no true affinity for ordinary dyestuffs, has been the principal drawback to their widespread use.

Gas Turbine Engine

Experiments made by the Boeing Airplane Company and the Kenworth Motor Truck Company, Seattle, indicate that it will be possible to harness the aircraft-type gas turbine engine for ground use. Boeing installed a 175-horsepower gas turbine in a heavy-duty Kenworth truck over a year ago. This unit has now traveled more than 15,000 miles and the engine has been operated for 550 hours, hauling a total gross weight of 67,000 pounds. From the driver's point of view the turbine is a definite improvement over existing engines, since it eliminates the throb and shake of the pistons, the staccato exhaust of cycle explosions, and combustion knock. Cold weather operation poses no problem as there is no liquid cooling system. The major drawback is its high fuel consumption per mile, but improvements are being worked on. Boeing engineers have stated that preliminary tests have been successful beyond their expectations and the company is considering eventually entering commercial production.

High-Temperature Alloy

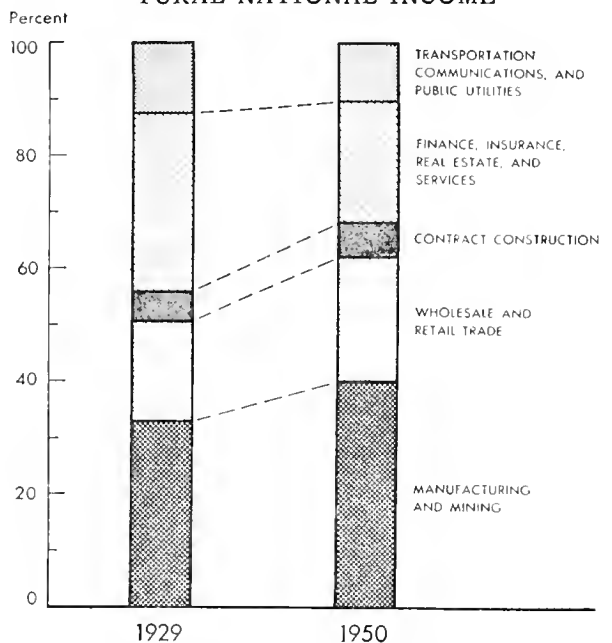
A new alloy has been developed by the International Nickel Company (67 Wall Street, New York 5, N.Y.) for use under conditions of high temperatures and corrosion. Trade-named Incoloy, it contains about 35 percent nickel and 20 percent chromium with the rest made up of iron. It is produced in most standard rolling-mill forms, including sheet, strip, rod, wire, and tubing, and is designed for many purposes now served by some of the company's other alloys which run up to more than 70 percent nickel.

National Income

The Department of Commerce has published the 1951 *National Income Supplement to the Survey of Current Business*, which reviews the basic trends and fluctuations in economic activity in the United States between 1929 and 1950. Over the past 22 years the economy has seen tremendous growth. During this period the dollar value of national output increased by 172 percent to \$282.6 billion. Volume was up 80 percent, with two-thirds of the increase received by consumers, one-fifth by the government, and one-seventh by investments.

Industrial shifts within the private nonagricultural section of the economy between 1929 and 1950 are illus-

DISTRIBUTION OF PRIVATE NONAGRICULTURAL NATIONAL INCOME



Source: 1951 *National Income Supplement to the Survey of Current Business*, p. 5.

trated in the accompanying chart. The most striking change was the large increase in the share of manufacturing industries, which rose from 30 percent to 37.5 percent. This is pointed out as a direct reflection of the increasing degree to which demand for the output of private industry has centered upon commodities. This demand also affected the wholesale and retail trade industries, whose percentage went up from 18 to 22, an expansion closely allied to the growth of manufacturing output. The greatest decline was shown by the finance, insurance, and real estate group, down to about 10 percent (not including services, which are shown in the same group on the chart). This decrease was attributed to the fact that rents did not keep up with general price rises and the group was little affected by growth in commodity output. In finance a marked shift was noted from the external financing of business investment through bank loans or security sales to financing out of retained earnings.

(Continued on page 9)

WHAT ARE PRICE CONTROLS DOING TO THE MEAT INDUSTRY?*

ROLAND WELBORN, Commercial Research Department, Swift & Company

Attempting to shed light on the meat price control experience is not an easy assignment in these times. Such efforts characteristically generate so much heat as to obscure the light. For that reason an attempt will be made to stick to facts, with a minimum of theorizing. But since it is impossible in the limited space to be comprehensive, this article will be confined to those facts which describe the impact of the control regulations on the meat industry. Others will be left the final task of balancing the implications of those facts against the benefits (if any) to be derived from the meat price control program by the consumer, the farmer, and the worker.

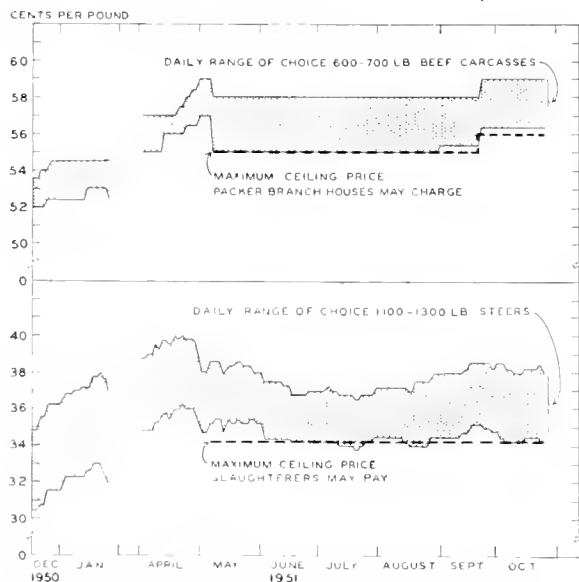
Major Defects of Present Regulations

Here are some of the effects of price controls on the meat industry—not necessarily in the order of their importance:

1. Reported wholesale market prices for many kinds of meat have substantially exceeded the ceilings prescribed in OPS regulations. This can mean only that many sellers have violated regulations or have found legal methods of evading the intent of them. For example, daily wholesale market quotations for choice beef carcasses, as reported by the United States Department of Agriculture, have ranged \$3 to \$4 per cwt. over the ceiling prescribed for packer branch houses in Chicago ever since the specific ceilings were imposed in early May. (See upper portion of accompanying chart.) Similarly, the New York lamb market has been reported by the USDA at prices ranging from \$56 to \$70 per cwt. for 40-45 pound carcasses, although the top price reported during the base period (December 19, 1950, to January 25, 1951) was \$55 per cwt., and the ceiling determination excluded the top 10 percent of sales in the base period.

* This article was prepared at the invitation of the editors, and is based on conditions as of mid-October. It represents the personal views of the author and not necessarily the official views of Swift & Company.

CHOICE CATTLE AND BEEF PRICES, CHICAGO



Source: U. S. Dept. of Agriculture.

These are extreme examples, but the meat trade is full of similar illustrations that differ only in degree.

It should not be difficult to understand what this situation means to the earnings of the livestock slaughterer who must buy his raw material in competition with those who sell above his ceilings.

2. Reported market prices on live cattle in many markets have been consistently above the OPS compliance level since the live-cattle ceilings were first imposed in early May. The USDA daily livestock market report at Chicago shows prices for choice steers ranging much of the time as much as \$4 over the calculated OPS compliance level, with the low of the range of reported prices at or below the calculated compliance level in only 11 out of the past 25 weeks. Prices of commercial grade steers are reported as low as the calculated compliance level in only 3 of the last 25 weeks, with the range for the most part running from 75 cents to \$4 over the calculated compliance price.

Again, it takes no great amount of imagination to envisage what happens to the slaughter volume of those who try to buy their cattle *in compliance* on such markets.

3. There has been a sharp distortion in the geographical pattern of cattle slaughter since price controls were instituted. In the summer of 1950 the New England area slaughtered about 7.5 percent of the total Federally inspected beef. This past summer the New England percentage was about 10.5, an increase of 40 percent in relative volume for the area. Shifts of substantial magnitude and in the same general direction are apparent in all areas outside the Corn Belt, and are at the expense of the Corn-Belt area.

These shifts clearly involve major changes in competitive positions in the trade.

4. This shift is also shown in what has happened to the proportion of Federally inspected slaughtering in the 95 plants whose operations are reported by the American Meat Institute. During June and July of last year, these plants accounted for about 58 percent of the total inspected beef. This year they slaughtered only 45 percent of the total. Their volume was only 62.5 percent of last year as against 80 percent for the total inspected slaughter. Their relative position did not appreciably improve through September, and during the first two weeks of October they were still slaughtering less than 45 percent of the Federally inspected volume (as against 58 percent a year ago) and were running at about two-thirds of last year's volume, although the total Federally inspected output was down only 12 percent from a year ago. In view of the part played by regulations, one must conclude either that the regulations themselves discriminate in favor of one group of slaughterers against another, or that they are less fully adhered to in some places than in others.

5. Cattle slaughterers who complied with regulations have operated at severe losses in many areas—losses that can never be counterbalanced by profits so long as ceilings are effective. At market prices reported at Chicago on choice steers in the last week of September, a slaughterer who sold at OPS ceilings on the Chicago market would have lost over \$20 per head. Such losses were sustained by some operators in order to hold their labor gangs, to keep their plants in operation, and to supply customers

whom they have regularly supplied over a long period of time—always with the hope that relief would soon be forthcoming. If one is asked, "Doesn't this also violate the live-cattle ceilings?" it becomes necessary to describe another feature of the beef controls, as follows:

6. Under regulations effective during September and October (and discontinued for the accounting period beginning nearest November 4) a slaughterer who processed less than 50 percent of his last year's cattle volume at a given plant was not required to buy cattle for that plant in compliance with the live ceiling if his over-all cattle slaughter was less than 65 percent of the previous year. That is to say, if his volume was so low that he was operating on a loss basis anyway, he was permitted to hold his reduced position if he was willing to increase his loss by increasing the cost of his raw material. In other words, the OPS recognized that cattle markets were above compliance and condoned that fact for those whose operations had been squeezed down by inability to buy at compliance levels. The insidious implications of this system need no elaboration.

7. Hog slaughterers are now operating under specific dollar-and-cent pork price ceilings and have been doing so since October 1. Prior to that time, pork products (other than loins, which were placed under specific ceilings on July 30) were subject to the General Ceiling Price Regulation issued in late January, 1951. The Defense Production Act clearly states that product ceilings shall not be applied *or maintained* at levels which fail to reflect parity for hogs. Since some pork products were at ceilings during most of the year, there is clearly a basis for doubt as to the legality of the pork ceilings so long as hog prices are below parity. This has been true since April of this year.

8. Integrated firms in the industry are operating against sharp discriminations in their selling prices as prescribed by existing regulations. There are a number of firms with Midwest slaughter plants which normally perform a wholesaling function, distributing their products through their own wholesale outlets. Yet these wholesale units are not permitted a markup in price, although the non-slaughtering wholesalers with whom they compete have a markup of \$2.25 per cwt. on beef, even though the economic services performed by the two are identical and they frequently serve identical customers at prices

which in normal times are competitive with each other. If the current situation is to be perpetuated, such integrated firms will be substantially better off if they abandon their wholesaling operations. The distortion in the pattern of meat distribution which would result would be of major proportions.

Implications for the Future

The foregoing are major points of difficulty. Considerable time could be spent in setting forth the never-ending stream of problems and maladjustments in the market (normally adjusted by price behavior) that must be presented to OPS for action, and the slowness with which that agency (of necessity) responds in handling such matters: e.g., the inability to get a ceiling established on specialty hams for export to Venezuela; the inability to get authority to sell the customary boneless cuts to the Alaskan trade where, because of high freight costs, boneless cuts have always been sold; the difficulty of obtaining prompt and unequivocal interpretations of the many doubtful points that inescapably arise in the application of regulations to a wide variety of conditions and business practices, and so forth, without end. The market in normal times governs many decisions, and the freezing of the market shifts that burden onto a government agency which even under the most favorable circumstances could not possibly make such decisions effectively.

Nothing is to be gained by inveighing against agencies of government established to execute policy determined by the President and/or the Congress. But a careful weighing of the facts makes one extremely skeptical that the public, the Congress, or even the executive branch of the government fully understand the implications of what is being done by the meat control program. The difficulty lies in the substitution of agency control for the controls and the guidance of a free market. If there were any foreseeable condition in which price controls would be less justifiable than now, if there were any termination point in sight or definable, there might conceivably be some justification for carrying the present program forward. As matters now stand, there seems to be nothing ahead but a perpetuation of the existing difficulties and a slow squeezing out of the trade of those who by choice or by necessity continue compliance with existing regulations.

Business Briefs

(Continued from page 7)

Controlling Retail Stocks

The What and Why of Stock Control is the title of a new bulletin published by the Business Management Service of the College of Commerce at the University of Illinois. The booklet discusses both dollar stock control and unit stock control and their relationship to retailing operations. While there is no one universally accepted control system which will fit each type of merchandise and while the personal preferences of individual managements largely determine the systems in use, the plans suggested in this bulletin are readily adaptable to the needs and preferences of many retailers. Dollar stock control is designed to make stock investments balance with sales and helps make liabilities to trade creditors fit

into an over-all financial plan. The object of unit stock control is to obtain maximum sales with a minimum amount of stock left on hand. Both allow the retailer to compare his average investment in stock with typical experiences in the trade and tell him what to buy, how much to buy, when to buy, and how to schedule deliveries with suppliers.

Paper Process

Du Pont has developed a method of mixing its synthetic rubber, Neoprene, with paper. Instead of coating the finished paper, the Neoprene is added in latex form to the pulp. The new papers have strength when wet and are resistant to chemicals. They have been successfully tried out in industry for multiwall bags, wrapping paper, boxboard, and filter paper. Domestic use in woven rugs, disposable diapers, and insulated thermos bags is expected.

LOCAL ILLINOIS DEVELOPMENTS

Most of the indicators of Illinois industrial production and business activity declined from August to September. Only coal production and business loans increased. Steel production in the Chicago area, estimated at 1,832,000 net tons, was off slightly from August because of the shorter month, but still represented an operating rate of 103.7 percent of rated capacity. For the first nine months of the year, steel mills around Chicago have operated at 104 percent of capacity, in comparison with the national rate of 100.5 percent.

Weekly Wages Generally Up

For most people, interest in hours and wages is second only to interest in the number of workers with jobs. Since the outbreak of war in Korea, average weekly wages in the State have risen considerably in some important industries and somewhat less in others (see accompanying chart). In August, 1951, the latest month for which data are available, average earnings ranged from \$45 to \$80 per week.

In the primary metals and machinery industries, increases of 12 to 14 percent have occurred, and for manufacturing as a whole weekly wages rose nearly 10 percent over the 14-month period from June, 1950, to August, 1951. In four industries—primary metals, electrical machinery, other machinery, and food production and processing—a longer work week and increases in hourly earnings combined to raise average weekly earnings. Such was also the case in total manufacturing earnings. In printing and publishing and in apparel manufacture, higher hourly wages more than offset small contractions in hours worked.

Of the major Illinois industries, only the mining, quarrying, and petroleum production group showed a decline (2.6 percent to \$72.45). Hourly wages rose from

\$1.94 to \$2.05, but failed to offset the 3-hour drop in hours worked. A sharp drop in hours worked by soft-coal miners and consequently in their earnings was responsible.

Low weekly wages in apparel resulted from the combination of a short work week (about 36 hours) and low hourly wages (\$1.25 or less). At the other extreme, a relatively high hourly wage of \$2.00 in printing and publishing, together with an average work week of about 40 hours, resulted in weekly wages of nearly \$80.

Construction Down Seasonally

Construction contracts awarded in the State during September dropped sharply from the August level. Seasonal factors were an important element in the 41.7 percent decline to \$71,893,000 reported by the F. W. Dodge Corporation, but building restrictions also entered the picture. Only the commercial building category, up 3.9 percent, showed a rise over August. Nonresidential construction fell 42.6 percent, residential 43.6 percent. In comparison with September, 1950, awards were down 11.8 percent, residential and nonresidential building sharing about equally in the decrease.

A large building program is scheduled to get under way in the near future at Scott Air Force Base, near Belleville. An improvement program including dormitories, mess halls, hangars, paving, and other facilities with a total value of \$13 million has been undertaken. Eventually, improvements costing an estimated \$24 million are to be made.

Prices Up Slightly

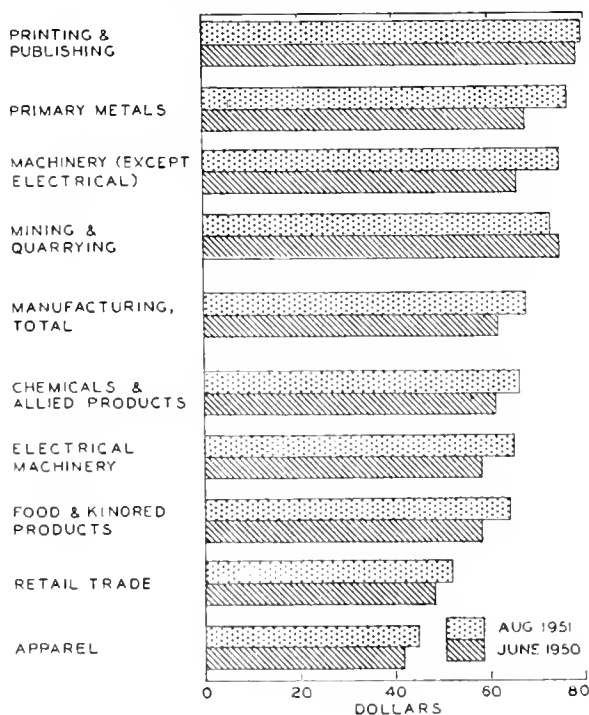
Consumers' prices in Chicago rose only 0.5 percent from August 15 to September 15, to 191.8 percent of the 1935-39 average. Increases were recorded by all component groups except food, which showed a fractional decline. The largest advance was shown by apparel (up 3.8 percent). Rent, which is reported quarterly, was up 1.2 percent from June 15. Since September 15, 1950, consumers' prices had risen by 6.9 percent; increases in the various groups ranged from 2.1 percent for fuel, electricity, and refrigeration to 9.0 percent for apparel.

Prices received by Illinois farmers during the month ended September 15 dropped 1 index point to 306 (1910-14 = 100). Declines in prices for vegetable and oil-bearing crops more than offset increases in prices for feed grains and fruit. Food grain prices were unchanged. Since the index of prices paid showed no change, the parity index for the State remained at 109.

Good Crop Year

Despite adverse weather conditions late last spring which affected both planting and early growth of crops, 1951 has been a near-record year for farmers throughout the State. The Illinois Department of Agriculture estimates the corn crop at 494 million bushels, substantially above the 1950 crop of 420 million bushels. The soybean crop is expected to total 88 million bushels, second only to last year's 95 million bushels. In the case of corn, both an expansion in acreage and a larger yield per acre contributed to the larger harvest. The increase may help replenish farm stocks. The carry-over of old corn was down to 26.5 million bushels, as compared with 45.5 million bushels last year. Yield per acre for soybeans was up from 24 bushels to 25 bushels, but acreage planted declined by 400,000.

**AVERAGE WEEKLY EARNINGS, JUNE, 1950,
AND AUGUST, 1951**



Source: Illinois Dept. of Labor.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

September, 1951

	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS	\$28,193 ^a	801,805 ^a	\$473,520 ^a		\$10,151 ^a	\$11,033 ^a
Percentage Change from... {Aug., 1951....	+3.1	+0.2	+4.1	+6.5	-1.9	+2.2
{Sept., 1950....	+14.4	+0.4	-3.3	-4.9	+0.3	-0.2
NORTHERN ILLINOIS						
Chicago	\$19,990	639,434	\$344,061		\$9,194	\$9,666
Percentage Change from... {Aug., 1951....	+6.4	+1.0	+4.1	+7.4	-1.9	+2.2
{Sept., 1950....	+17.1	+1.8	-3.7	-4.9	+0.1	-1.4
Aurora	\$ 451	n.a.	\$6,654		\$ 42	\$ 83
Percentage Change from... {Aug., 1951....	-38.6		+3.4	+8.6	+1.0	+7.4
{Sept., 1950....	+40.9		-0.8	-4.0	+3.4	+9.6
Elgin	\$ 387	n.a.	\$4,934		\$ 28	\$ 64
Percentage Change from... {Aug., 1951....	+35.8		+6.6	+7.4	+6.2	-19.9
{Sept., 1950....	+143.4		-5.5	+6.5	+5.5	-13.9
Joliet	\$ 413	n.a.	\$9,562		\$ 49	\$ 61
Percentage Change from... {Aug., 1951....	-61.0		+9.4	+12.9	+0.1	-6.4
{Sept., 1950....	-7.8		+6.4	+1.4	+6.9	+8.0
Kankakee	\$ 189	n.a.	\$4,382		n.a.	\$ 28
Percentage Change from... {Aug., 1951....	-28.4		+5.5	-1.4		-1.5
{Sept., 1950....	+89.0		-6.6	+0.7		-0.2
Rock Island-Moline	\$1,759	16,629	\$9,560		\$ 33 ^b	\$ 117
Percentage Change from... {Aug., 1951....	+115.3	-4.9	+7.8	n.a.	-2.7	-7.0
{Sept., 1950....	+122.4	+15.8	+8.3		-3.4	-12.5
Rockford	\$1,306	23,478	\$14,833		\$ 124	\$ 130
Percentage Change from... {Aug., 1951....	+91.2	-3.1	+4.4	+6.9	-0.9	-11.9
{Sept., 1950....	+16.0	+0.6	+2.6	-3.8	+8.0	-7.6
CENTRAL ILLINOIS						
Bloomington	\$ 131	5,016	\$4,746		\$ 46	\$ 76
Percentage Change from... {Aug., 1951....	-56.3	+0.5	+3.2	n.a.	+1.1	-14.3
{Sept., 1950....	-53.2	+10.6	-9.3		+1.5	+24.3
Champaign-Urbana	\$ 404	6,482	\$6,350		\$ 47	\$ 140
Percentage Change from... {Aug., 1951....	-10.0	+2.2	+4.9	n.a.	-3.0	+117.8
{Sept., 1950....	+27.0	+5.2	-4.6		+4.2	+126.7
Danville	\$ 214	7,737	\$5,549		\$ 41	\$ 42
Percentage Change from... {Aug., 1951....	+57.4	+3.4	+4.9	-0.2	-0.7	-2.8
{Sept., 1950....	-23.6	+11.2	-2.9	+1.2	+8.2	-6.2
Decatur	\$ 284	16,643	\$8,802		\$ 79	\$ 76
Percentage Change from... {Aug., 1951....	-73.9	-2.4	+4.0	+5.8	+4.2	-8.5
{Sept., 1950....	+54.3	+1.5	-4.2	-6.5	+6.6	+2.6
Galesburg	\$ 158	4,866	\$3,977		n.a.	\$ 78
Percentage Change from... {Aug., 1951....	-47.7	-9.0	+10.4	n.a.		+189.6
{Sept., 1950....	+50.5	+5.3	-1.0			+228.9
Peoria	\$ 762	25,676 ^c	\$15,636		\$ 190	\$ 153
Percentage Change from... {Aug., 1951....	-32.7	-2.1	-2.7	-2.7	-4.9	-1.2
{Sept., 1950....	-19.1	-41.4	-8.5	-11.3	-4.6	-4.3
Quincy	\$ 437	6,450	\$4,523		\$ 32	\$ 53
Percentage Change from... {Aug., 1951....	+90.0	-11.9	+3.7	+11.0	-3.3	-23.9
{Sept., 1950....	-72.1	+1.3	-7.7	-8.0	+2.1	-1.6
Springfield	\$ 760	21,937 ^c	\$12,588		\$ 84	\$ 160
Percentage Change from... {Aug., 1951....	+70.8	-3.7	+0.8	+4.5	+0.4	-5.4
{Sept., 1950....	+51.7	+9.4	-0.3	-4.3	-1.0	-3.6
SOUTHERN ILLINOIS						
East St. Louis	\$ 268	11,596	\$9,019		\$ 133	\$ 43
Percentage Change from... {Aug., 1951....	+29.5	-6.1	+6.3	n.a.	-9.0	-8.1
{Sept., 1950....	+97.0	+24.3	-1.6		+5.5	-5.0
Alton	\$ 197	10,996	\$4,323		\$ 28	\$ 22
Percentage Change from... {Aug., 1951....	+47.0	-0.2	+4.5	n.a.	-5.2	-6.9
{Sept., 1950....	+5.9	+5.6	-6.6		+6.9	+0.8
Belleville	\$ 83	4,864	\$4,018		n.a.	\$ 38
Percentage Change from... {Aug., 1951....	-85.7	+0.8	+2.2	n.a.		+2.4
{Sept., 1950....	-33.6	+10.4	-4.9			+36.3

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for August, 1951, the most recent available. Comparisons relate to July, 1951. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

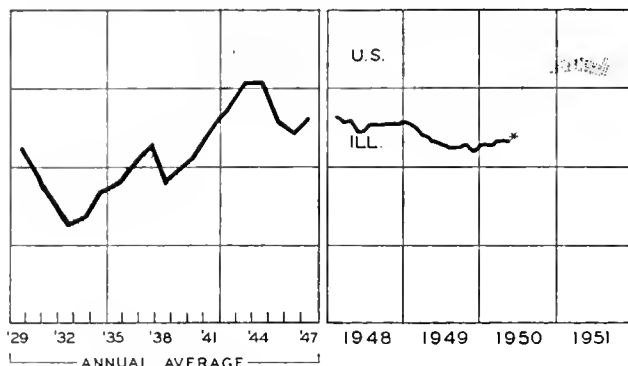
^c Includes immediately surrounding territory.

n.a. Not available.

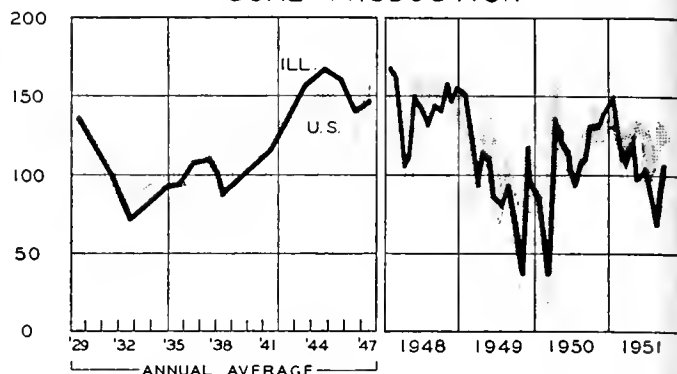
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

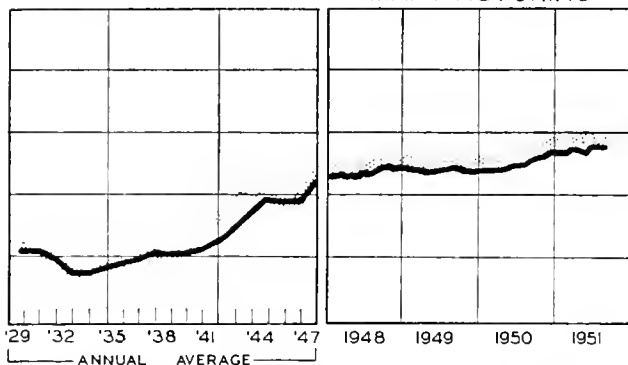
EMPLOYMENT- MANUFACTURING



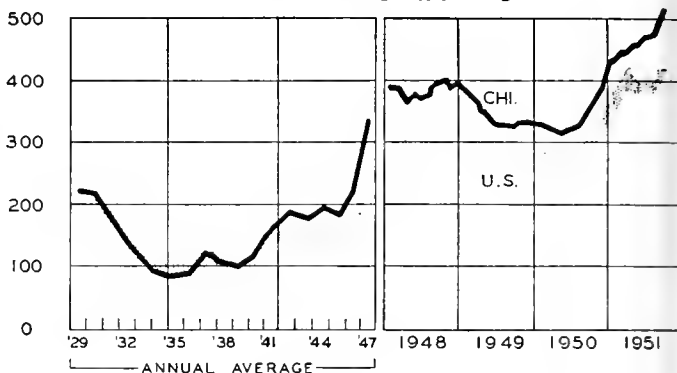
COAL PRODUCTION



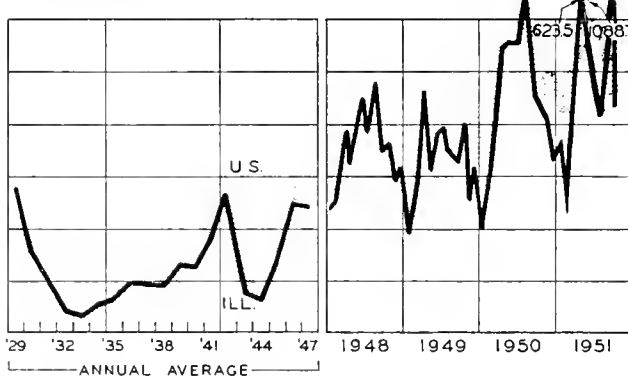
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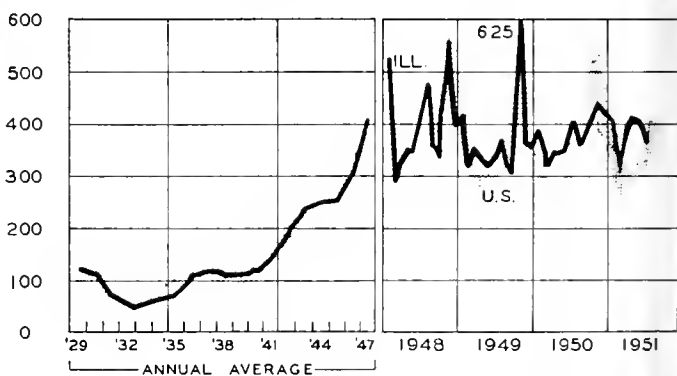
BUSINESS LOANS



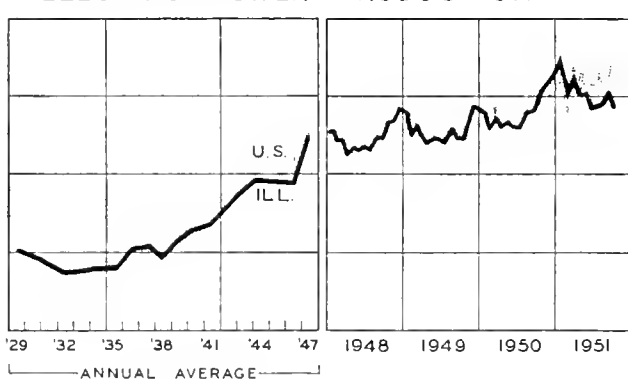
CONSTRUCTION CONTRACTS AWARDED



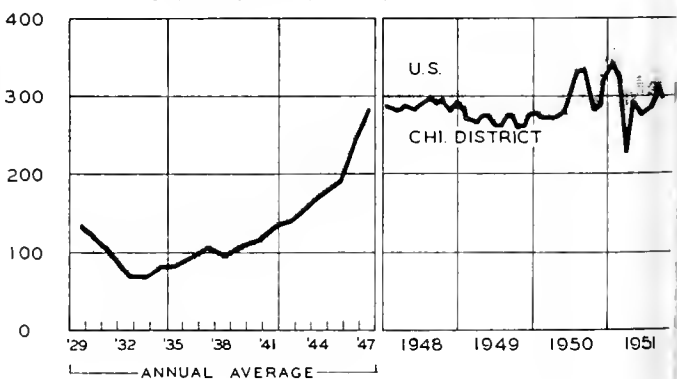
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



* Illinois figures being revised.

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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HIGHLIGHTS OF BUSINESS IN NOVEMBER

Little change from October's high levels of business activity was apparent in November. In the first eight months following the outbreak of fighting in Korea, industrial production and most other key measures of economic activity spurted upwards, but since last February remarkably little change has taken place in the over-all picture. The Federal Reserve index of industrial production in November was at the same level as it was last February, about 220 percent of the 1935-39 average, though considerable shifts have occurred within the aggregate. Manufacturers' sales, on a seasonally-adjusted basis, were down nearly 5 percent for the same period. Wholesale prices at the end of the month were about 3 percent below February, though consumer prices registered a 2 percent gain in the interim. November's 1.8 million unemployed represents a marked decline from the 2.4 million unemployed last February, but this decrease is actually smaller than it seems once allowance is made for seasonal differences in activity between the two months.

Construction Down Seasonally

The value of new construction put in place in November was down seasonally to \$2.5 billion, a 7 percent decline from the previous month. All major types of building activity shared in the decline, though public construction fell most, as highway construction was curtailed with the onset of cold weather. Shortages of materials led to a more-than-seasonal decline in private industrial and commercial building but residential building dropped off only slightly.

Construction activity in most categories was below that of last November. However, new construction in the first 11 months of this year, valued at \$27 billion, was 8 percent above the corresponding figure for 1950, and is now certain to exceed the record \$28 billion put in place last year.

Prices Rise Slightly

Wholesale prices were up slightly in November, mainly on the strength of higher prices of grains, fruits, and vegetables. Consumer prices as of October 15 averaged 0.4 percent higher than one month earlier. At 187.4 percent of the 1935-39 average, the consumers' price index was about 10 percent above the level of June 15, 1950, just before the outbreak of fighting in Korea. Meat

prices have registered the largest rise over this period, 14 percent; beef and veal are up the most, 18 percent.

Higher ceiling prices for cars and many other consumer goods may soon be allowed by the Office of Price Stabilization in giving effect to the Capehart Amendment of the economic controls law. The Amendment permits manufacturers to add cost changes through last July 26 to their pre-Korea prices in computing price ceilings, instead of through last March 15.

Retail Sales Pick Up

Retailers' sales for this Christmas shopping season are running ahead of last year on the basis of early reports. Total retail sales in October were estimated at \$13.1 billion, 6 percent above last October. After adjustment for seasonal factors and trading-day differences, sales were also up 1.5 percent from September.

Sales in the nondurables group rose the most from September to October, mainly because of last minute purchases at liquor stores in anticipation of higher excise taxes. Building material, hardware, and apparel stores registered the next largest sales gains, up 3 to 4 percent from September on a seasonally-adjusted basis.

Forecast Optimistic

Continued national prosperity for at least the next eighteen months is in prospect, according to the recent forecasts of the U. S. Department of Agriculture. In seeking a basis for 1952 farm production goals, the Department foresees an increase of \$22 billion in the production of all goods and services in the 1953 fiscal year, which begins July 1, 1952, and ends June 30, 1953. This would bring the total national product to a new high of \$360 billion, 8 percent above the estimated output of the current fiscal year. Government spending is estimated to reach an annual rate of \$94 billion, as compared with \$78 billion in the current fiscal year and \$50 billion in the last fiscal year, ended June 30, 1951.

The forecast predicts no relief from current high price levels. Food prices in fiscal 1953 are expected to rise a further 3 percent above this fiscal year's level. One million more people are expected to be in the labor force next year. To meet these higher levels of activity, the Department is asking for at least 4 percent more food production in 1952 than was obtained from this year's record harvest.

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Anomalies of the War Program

Reports from Washington indicate that the armament program is going to be stepped up. The approved basis for planning contemplates an air force of 140 wings as compared with the 95 wings previously planned.

At the same time, Congressional committees are investigating the failure of military procurement to meet the schedules of the lower program now in effect. Expenditures of almost \$100 billion have been authorized. To date, only a fraction of this total has come off the production lines. A Senate Committee reported that "deliveries of defense hard goods — planes, tanks, ships, and guns — have fallen dangerously behind schedule."

Determining the Size of the Program

Nowhere is there more concern over the lag in achieving armament goals than in the White House itself. President Truman, knowing that so far at least we have been unable either to intimidate the Russians or to reach an agreement with them, feels an urgent need for decisive military force. The official view of peace moves, such as a truce in Korea, is that they must be assumed to have no significance for rearmament policy, since power continues to play the dominant role in international affairs.

Details of the situation have not been released to the public because of secrecy regulations, but news reports indicate that the main source of concern lies in the fact that so much of our best military equipment exists only on blueprints. Monthly output of such vital weapons as the F-86 Sabrejet Fighter — the one plane consistently reported to outperform the Russians' MIG — amounts to no more than handfuls that might be swallowed up in one big air battle. Not only are our own forces inadequately equipped, but we are unable to meet our commitments to the forces of Western Europe without stripping away the meager supplies now on hand.

This frustration in realizing specific goals leads to a growing sense of urgency which the public cannot share. The response to it takes the form of appeals for cooperation and exhortations describing the dangers of the situation in general terms. Instead of focusing on getting the specific items needed, efforts are directed toward enlarging the over-all program. The result is in effect an announcement of forceful intent without the present means of making that intent effective.

The drive for expansion of the total program fits neatly into the views of the Military Departments. They know that even the maximum forces now planned would be inadequate in a third world war. The increase in the air force to 140 wings is a compromise which gives them only half of the increase they wanted. What they feel to be needed is an unrestricted authorization to proceed at their own discretion against the possibility that our maximum strength will be called for in the near future.

The production lags are due to a variety of causes. All the usual kinds of bottlenecks have to be overcome. Also important, however, are difficulties arising from continual changes in design. Each time the design of a complex item like a fighter plane is changed, its production is for a time disrupted. So far, the Military Departments have been unwilling to freeze designs and thus permit production to go forward rapidly. Freezing design involves, of course, the possibility that the planes produced will quickly become obsolete; and the presence of obsolete equipment in large volume might in turn lead to restrictions on new production. Pending clarification of the situation in which the weapons are to be used, therefore, output is sacrificed.

One result of this is a questioning of the validity of established production schedules. On being asked why production was lagging behind, Mobilizer Wilson snapped, "Behind what?" He explained that there were no "real" schedules, that the existing schedules could not be considered to represent a realistic and coordinated program for military procurement.

An illustration of the point was provided by General Olmsted, who is in charge of military aid under the North Atlantic Treaty. To the amazement of all, General Olmstead announced that the military aid program was up to schedule. Senator Johnson (D., Tex.), investigating the basis for this statement, found that the program was up to schedule not because supplies were being shipped in accordance with the previously established schedules but because new "schedules" had been adopted.

Production Setting Its Own Course

In his testimony before the Senate-House "Watch-dog" Committee, Mr. Wilson denied that the program is failing to meet defense needs. Superficially, this has a note of complacency inconsistent with his own statements about the seriousness of the situation. This superficial impression is, however, incorrect, since there are two other points underlying the statement. First, it attempts to pass responsibility back to the Military Departments. For, if they are unable to state their requirements in specific terms, how can Wilson and his control agencies be expected to meet those requirements? Even more, however, it is a recognition of real limitations on the possibility of enforcing drastic controls under present circumstances.

Throughout the control agencies, there is an awareness of limits beyond which they cannot go in forcing restrictions at the present time. Neither the public, nor business, nor Congress itself is willing to disregard competing interests. Although some Congressmen are critical of present laxities, others would as strongly oppose a real "get-tough" policy of curtailing the civilian economy. The action of Congress in limiting consumer credit regulation stands as an object lesson to all administrators who might consider going too far. The latter have therefore tried to refrain from diverting materials to such a degree that

(Continued on page 9)

CATTLE FEEDING IN THE CORN BELT

Although the maintenance of cattle-breeding herds and the raising of beef are operations concentrated largely in the states west of the Mississippi River, a major portion of the nation's beef production goes to market by way of the Corn Belt. There, cattle and calves are fed, or "finished," on grain, hay, and concentrates until they are fat enough to yield high quality beef.

Cattle feeding is an integral part of Corn Belt farming. Most of the corn produced is not marketed as such but is used as animal feed. Although a fraction goes to the corn products industry, the largest part is used for feeding hogs, poultry, and dairy cattle, and for fattening beef cattle brought in from farm pastures and Western ranges where they were raised on rough feed.

About half of the cattle put on grain feed in the Corn Belt each year go into the feed-lots during the months of October, November, and December, and are marketed in the winter, spring, and summer of the following year. These cattle command the highest prices at the markets and provide most of the best grade of beef available to consumers.

Originally Fed to Market Corn

The production of beef has been one of the most important phases of agriculture in Illinois since the State was settled. Land cultivated by the pioneers was almost entirely devoted to grain raising, and since wheat was the only grain crop that could be sold for cash, many of the early farmers depended on cattle feeding to make their corn "walk to market."

Beef production in the State was greatly stimulated by the coming of the railroads connecting Illinois with the Atlantic coast. Rail transportation eliminated cattle drives across the Alleghenies which greatly reduced the weight of the steers. By 1860 Illinois ranked second in the nation with 970,800 cattle other than milk cows and work oxen. Almost 100 years later, in 1950, the State had 2,345,000 cattle other than milk animals, including those on pasture as well as those in the feed-lots. Although it is a leading state in number of cattle on feed, Illinois ranks only sixth in the nation in total number of cattle other than cows kept for milk, pointing up the importance of the younger western states in the breeding and raising operations of the cattle industry.

During the Civil War period cattle were still fed on Illinois farms primarily to market corn. Farmers wanted steers entirely corn-fed and at least four years old so they would be large enough to hold the maximum amount of grain. Freight rates for grain were very high but the railroads were eager to get livestock trade. Feeders brought cattle in from the West and fed them as much corn as they would take, often from 20 to 30 pounds per head per day. Illinois cattle today are fed about 15 pounds of grain per day, out of an average daily total of 38 pounds of feed, including grain, protein, hay, and silage, with roughage an increasingly important item in feeder cattle diet.

About 1895, corn and land prices went up so that it was no longer unprofitable to market corn in its original form. Corn Belt farmers continued feeding cattle to supply the increasing demand for beef, specializing in feeding young animals in which a greater proportion of the grain feed goes into building body tissues.

Illinois Ranks Second

The Department of Agriculture reports that Illinois had 489,000 head of cattle on feed on January 1, 1951, ranking second to Iowa, both at that time and over the five-year period from 1945 to 1949. By October, after the fall marketing season was well under way, Illinois farmers had only 222,000 head of cattle and calves on grain feed, 21 percent less than the number on feed a year ago. It was estimated that farmers in the 11 Corn Belt states had 9 percent fewer cattle on feed this summer than in 1950, but 22 percent more than in 1949.

Almost half of the choice and prime beef steers sold through the Chicago market, the nation's largest cattle slaughtering center, are marketed by Illinois feeders. Chicago is the principal marketing place for cattle finished in Illinois and their share of the choice and prime beef market has risen from 26 percent in 1925 to 47 percent in 1950.

Monmouth, Illinois, claims to be the prime beef center of the world. A large percentage of farms in Warren County, of which Monmouth is the county seat, practice beef feeding and breeding. The area is said to include some of the country's outstanding cattle feeders who consistently top the market with their high quality beef.

DeKalb is the leading Illinois county in number of cattle on feed, followed by Henry, Kane, Bureau, McLean, and Warren counties. The northwest area of the State had the largest number of feeder cattle in 1950, with the northeast ranking second. Together they account for 50 percent of the cattle on feed in Illinois.

Beef Production Increasing

On January 1, 1951, the number of cattle on feed in the nation was the largest on record, 4,656,000 head. The reduced number in feed-lots this summer was the result of shortened grain-feeding periods rather than any general cutback in beef production.

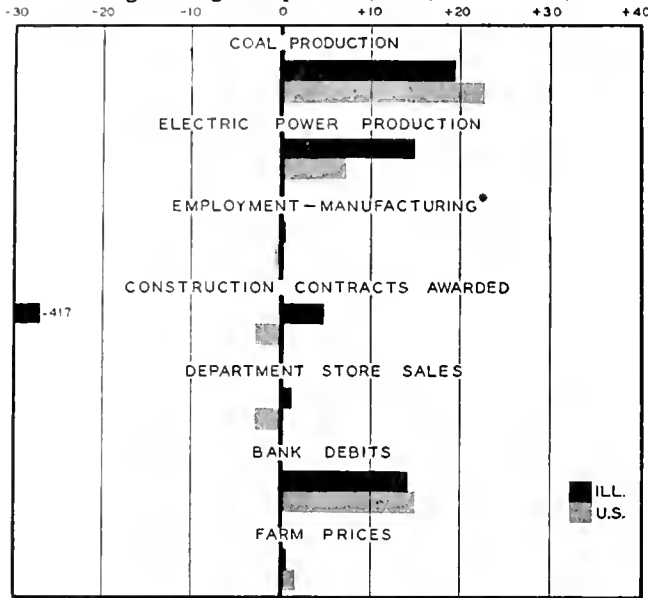
We have more beef on the hoof than ever before. Because of favorable prices for cattle the last few years producers have tended to retain young stock for breeding, a trend expected to continue from one to three years. Cattle numbers on farms traditionally move up and down through long swings, and in building up their herds farmers held back 6 million head in 1949 and 1950, a two-year period in which total slaughter was 57 million cattle and calves. They are probably holding back 6 million more this year, which will carry the number of beef cattle in the nation to a new record high of 90 million head by January. Heavier marketings are expected in 1952, with beef supplies up as much as 11 percent.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes September, 1951, to October, 1951



*August, 1951, to September, 1951

ILLINOIS BUSINESS INDEXES

Item	October 1951 (1935-39 = 100)	Percentage Change from	
		Sept. 1951	October 1950
Electric power ¹	327.5	+14.9	+ 6.6
Coal production ²	126.9	+19.4	- 6.3
Employment—manufacturing ³	n.a.	+ 0.2 ^a	+ 1.7 ^b
Payrolls—manufacturing ³	n.a.		
Dept. store sales in Chicago ⁴	237.3 ^c	+ 1.2	+ 3.5
Consumer prices in Chicago ⁵	193.5 ^d	+ 0.9	+ 7.3
Construction contracts awarded ⁶	453.5	+ 4.8	- 0.0
Bank debits ⁷	371.7	+14.1	+12.0
Farm prices ⁸	276.4	+ 0.6	+15.8
Life insurance sales (ordinary) ⁹	211.0	+17.2	+ 4.8
Petroleum production ¹⁰	232.4	+ 4.7	- 1.3

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor;
⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agency; ¹⁰ Ill. Geol. Survey.
^a August to September, 1951. ^b September, 1950, to September, 1951.
^c Seasonally adjusted. ^d New series. Old series index for October was 194.4. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	October 1951	Percentage Change from	
		Sept. 1951	October 1950
Annual rate in billion \$			
Personal income ¹	257.5	+1.5	+10.0
Manufacturing ¹			
Sales.....	264.0 ^a	+6.3	+ 6.3
Inventories.....	41.3 ^{a, b}	+0.5	+33.6
New construction activity ¹			
Private residential.....	11.2	-0.1	-25.2
Private nonresidential.....	10.3	-9.4	+10.0
Total public.....	10.8	-5.8	+20.7
Foreign trade ¹			
Merchandise exports.....	13.8	-6.3	+27.4
Merchandise imports.....	10.0	+16.0	- 9.8
Excess of exports.....	3.9	-37.4	....
Consumer credit outstanding ²			
Total credit.....	19.5 ^b	+0.9	+ 0.7
Installment credit.....	13.2 ^b	+0.0	- 1.7
Business loans ²	20.6 ^b	+2.4	+26.0
Cash farm income ³	51.6	+27.0	+19.0
Indexes (1935-39 = 100)			
Industrial production ²			
Combined index.....	219 ^a	0.0	+ 1.4
Durable manufactures.....	274 ^a	+0.7	+ 5.0
Nondurable manufactures.....	189 ^a	-1.6	- 3.6
Minerals.....	171 ^a	+2.4	+ 3.0
Manufacturing employment ²			
Production workers.....	162 ^a	-0.6	- 1.2
Factory worker earnings ⁴			
Average hours worked.....	108	-0.5	- 2.2
Average hourly earnings.....	270	+0.1	+ 7.5
Average weekly earnings.....	291	-0.4	+ 5.1
Construction contracts awarded ⁵	445	-2.9	- 7.4
Department store sales ²	303 ^a	-2.9	+ 4.1
Consumers' price index ⁴	187 ^c	+0.4	+ 6.7
Wholesale prices ⁴			
All commodities.....	221	+0.3	+ 5.4
Farm products.....	253	+1.7	+ 8.2
Foods.....	240	+0.8	+ 9.9
Other.....	205	-0.1	+ 3.2
Farm prices ³			
Received by farmers.....	277	+1.7	+10.4
Paid by farmers.....	218	+0.4	+ 7.5
Parity ratio.....	105 ^d	+1.9	+ 1.9

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b As of end of month. ^c New series 187.4; old series 187.8. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1951					1950
	Nov. 24	Nov. 17	Nov. 10	Nov. 3	Oct. 27	Nov. 25
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	2,018	1,993	1,907	1,877	1,928	1,834
Electric power by utilities.....mil. of kw-hr.....	7,157	7,333	7,396	7,319	7,234	6,508
Motor vehicles (Wards).....number in thous.....	78.1	112.8	109.7	111.7	114.6	116.0
Petroleum (daily avg.).....thous. bbl.....	6,145	6,151	6,119	6,205	6,257	5,813
Steel.....1935-39 = 100.....	232.2	226.4	226.2	234.0	230.4	221.9
Freight carloadings.....thous. of cars.....	711	814	791	838	864	702
Department store sales.....1935-39 = 100.....	355	374	366	349	327	319
Commodity prices, wholesale:						
All commodities.....1926 = 100.....	177.2	177.3	177.2	177.0	177.1	172.0
Other than farm products and foods.....1926 = 100.....	165.1	165.2	165.2	165.1	165.1	163.8
28 commodities.....August, 1939 = 100.....	325.9	328.8	328.9	326.7	328.8	343.1
Finance:						
Business loans.....mil. of dol.....	20,872	20,848	20,667	20,571	20,472	16,998
Failures, industrial and commercial.....number.....	149	109	150	143	155	146

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Maintained

Preliminary estimates of November industrial production indicate that the September and October rate of 219 (1935-39 = 100) was maintained. Steel production was only slightly below the October level; operations scheduled at 102.4 percent of rated capacity produced an average of 2,048,000 net tons of ingots and castings weekly. Automotive production dropped still lower, from a weekly average of more than 112,000 during October to less than 105,000 during November. Total production for the month was estimated at 455,000 cars and trucks.

For more than a year, industrial production has been raised or maintained by durable production, as shown by the accompanying chart. Nondurables have remained level or fallen off because of a drastic slackening of consumer demand and the accumulation of large stocks in many lines since early this year.

Between July and December of 1950, the important durable-goods industries showed substantial rises: iron and steel production, up 11 percent; machinery, 21 percent; nonferrous metals, 12 percent; and transportation equipment, 7 percent, the latter despite a drop in the output of automobiles. Total durables rose by 14 percent. Since January, 1951, the rise has slowed considerably, the October index of durables output being only 2 percent over the January level.

Foreign Investment Income Rises

Income received by American investors from business interests abroad continued to rise in 1950. At a little better than \$1.7 billion (excluding equity of \$443 million in undistributed earnings), gross income from foreign investments was more than double the amount earned in 1946, and nearly one-fourth higher than 1949 income. Returns on direct investments represented by far the larger portion of receipts, 84 percent; interest and dividends on portfolio investments contributed another 10 percent, and Federal government income accounted for the remainder. A shift

from investments in public utilities into manufacturing and petroleum, where returns are larger, has been a major reason for the increase in earnings from direct investment.

During the five years 1946-50, direct investments in foreign countries earned a total of nearly \$7.5 billion, approximately half of which was retained abroad. About two-thirds of the income returned to the United States during that period came from the Western Hemisphere, 40 percent from South and Central America and 26 percent from Canada.

Payments to foreign investors in American business also doubled from 1946 to 1950, rising from \$216 million to \$437 million. Funds invested here by foreigners have been placed mainly in stocks and bonds, so that more than half the total payments of \$1.5 billion over the 1946-50 period represented returns on such portfolio investments. Western European investments still represent the larger portion of foreign holdings in the United States, despite wartime sales, so that their holders receive 70 percent of our total payments to foreigners on investment account.

Employment Down Seasonally

Employment dropped seasonally during November as farm and other outdoor work was cut by the onset of winter weather. The drop of more than 600,000 in agricultural employment was only partially offset by a small rise in other work. Many of those whose usual work was halted either found other jobs or left the labor force, so that the rise in unemployment was only 200,000.

Bureau of Census data, in thousands of workers, are as follows:

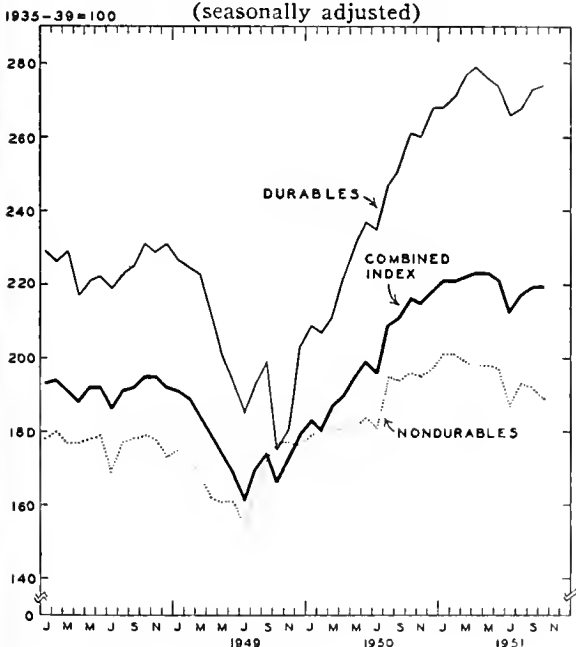
	November 1951	October 1951	November 1950
Civilian labor force.....	63,164	63,452	63,512
Employment.....	61,336	61,836	61,271
Agricultural.....	7,022	7,668	7,551
Nonagricultural.....	54,314	54,168	53,721
Unemployment.....	1,828	1,616	2,240

In addition to the number of workers employed in non-agricultural jobs, the number of hours worked weekly is arousing considerable interest. As yet there has been no general increase in the length of the work week; as a matter of fact, there was a decline of nearly an hour from October, 1950, to October, 1951, to 40.4 hours. Instead, many nondurable-goods industries were showing lower than average weeks, whereas workers in many durables lines, such as ordnance and machinery, were putting in as much as four hours overtime per week during October.

Wholesale Price Index Revised

The Bureau of Labor Statistics has announced that, beginning with January, 1952, its index of wholesale prices will be based on the 1947-49 average rather than on 1926. The revision will be the first major overhauling of the index in about 15 years. Weights for groups, sub-groups, and product classes will be assigned according to the value of sales in 1947, the only postwar year for which complete manufacturing sales data are available. In addition, the index will be broadened to cover about 2,100 items instead of the 900 formerly included. Items such as plastics which have been developed during or since the war will be incorporated; and some classes inadequately covered by the old index will be given better representation. The new index will be linked to the old as of January, 1947.

INDUSTRIAL PRODUCTION
(seasonally adjusted)



Source: Federal Reserve Board.

National Product Level

In contrast to the substantial increases each quarter since the beginning of 1950, gross national product in the third quarter of 1951 remained steady at an annual rate of \$328 billion. For the first three quarters of this year, GNP averaged \$325 billion, almost 15 percent above 1950's \$283 billion. Of the increase, about half represented a rise in physical volume and the other half reflected higher prices.

The largest portion of the increase since the third quarter of 1950 has been absorbed by government purchases. Inventory liquidation has cut total private domestic investment from the high level of early 1951, but new construction and additions to producers' durable equipment continued to take place at a rapid rate. Net foreign investment shifted from a negative balance of \$3.2 billion to a positive investment abroad of \$1.2 billion.

Federal government defense expenditures rose by about \$6 billion quarterly (annual rates) to \$38.5 billion for the third quarter, three times the level for the first half of 1950. Other large increases in government purchases are in prospect as defense goods now in the blueprint and production stages are delivered.

Defense mobilization has also been an important factor in the domestic investment sector of the economy. Expansion of plants engaged directly or indirectly in defense production is cited as the chief reason for the doubling of the 1950 industrial building rate during the first nine months of 1951. Much of the remainder appeared in the public utility industry, where sizable additions were being made to electricity-generating capacity.

In addition, inventories of raw materials and work in progress on defense orders are believed to account for an increasing portion of business inventories, whereas stocks of civilian goods are being brought more nearly into line with sales.

There has also been a marked slowing of the rate of buying by consumers, especially in the durable-goods component, since the beginning of 1951. Purchases of non-durables have remained at a high level, and expenditures for services have advanced. Several factors have affected the buying of durable goods: earlier scare buying ahead of needs, increasing resistance to price rises, plentiful supplies, and credit controls.

The sizable shift in the foreign-investment component between the third quarter of 1950 and the third quarter of 1951 reflects a change from a substantial import surplus to a small excess of exports. Improvements in financial conditions abroad last year, increased import requirements because of defense, and small harvests in many countries have caused the increased buying from us.

GROSS NATIONAL PRODUCT OR EXPENDITURE

(seasonally adjusted, billions of dollars at annual rates)

	3rd Qtr. 1951	2nd Qtr. 1951	3rd Qtr. 1950
Gross national product.....	327.6	327.8	287.4
Personal consumption.....	202.5	201.7	202.5
Durable goods.....	25.3	25.9	34.3
Nondurable goods.....	110.0	109.5	105.5
Services.....	67.2	66.2	62.7
Domestic investment.....	55.7	65.6	47.3
New construction.....	21.5	22.5	23.5
Producers' durable equipment	28.1	27.2	24.5
Changes in business			
inventories.....	6.1	15.9	-.7
Nonfarm inventories only..	5.1	14.8	-1.8
Foreign investment.....	1.2	.0	-3.2
Government purchases.....	68.2	60.4	40.8

INCOME AND SAVINGS

National income.....	n.a.	274.3	245.8
Personal income.....	253.2	249.9	227.3
Disposable personal income.....	224.7	221.8	207.1
Personal saving.....	22.2	20.1	4.6

Machine Tool Bottleneck

With the recent report of the Senate Preparedness Committee, the severe shortage of machine tools has been re-emphasized. Beginning with the third quarter of 1950, new orders rose sharply to 560 percent of the 1947-49 average but are now down to about 400 percent of the base period. Shipments, on the other hand, have risen much more slowly and are now a little more than 220 percent of the base average (see accompanying chart).

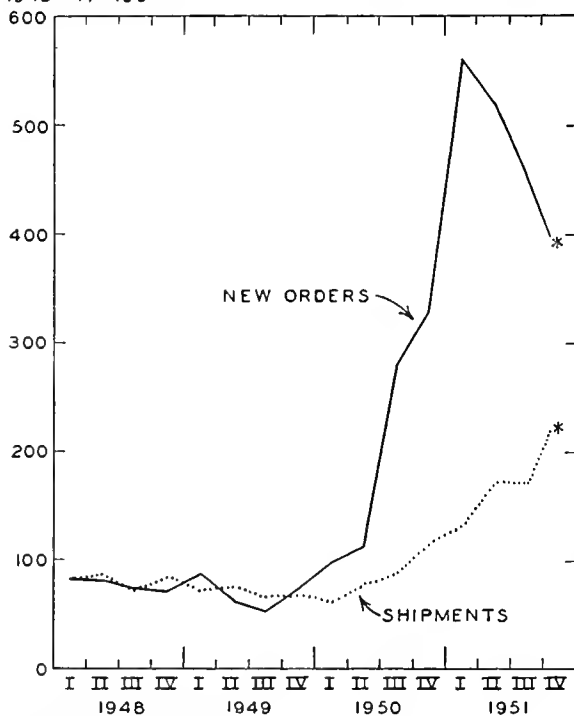
Productive capacity in the industry itself is a major problem. Even before the end of the second World War, machine tool builders were finding a slackening market for their output; by the time reconversion was finished, many producers had either gone out of business or had shifted into other lines. Since the war began in Korea, demand from heavy industries has been so great that the ratio of unfilled orders to the demonstrated monthly production rate has risen steadily and is now about 23 to 1.

Three methods of stepping up output are available: increasing capacity of existing producers, government building of new facilities, and subcontracting. In the first two cases, obtaining the new tools necessary is a major headache in itself. In the third case, idle capacity would have to be found among producers of heavy equipment and earlier experience has shown that prices would be higher because of the added production step.

In order to alleviate the difficulty, pools of equipment have been set up so that available tools will be in use more steadily. Tool builders have been given top priorities on their own products, the government is clearing the way on materials allocations, and producers are working longer hours to make full use of available labor.

MACHINE TOOL ORDERS AND SHIPMENTS

1945-47=100



* OCTOBER DATA

Source: National Machine Tool Builders' Assn.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Military Packaging

The Defense Department has announced publication of a new manual on preserving, packaging, and packing military supplies to be used by the armed forces. The manual, available from the Government Printing Office as Army TM 38-230, is expected to reduce losses on stores because of inadequate or improper packaging. It will also be useful to industry since it covers in detail steps necessary to protect stores so they will get to their ultimate destination in a ready-for-issue condition.

Plastics Drill

A fast, long-lasting drill for penetrating thick plastics which lasts three times longer than standard drills and can be made at less cost has been developed by a Westinghouse Electric Company engineer. In the new drill a straight, round shaft, only 40 percent of the diameter of the drill tip, is substituted for the spiral, grooved shaft found in conventional drills which must be fed slowly to prevent overheating and withdrawn often for removal of chips and waste from the drill flutes. The round-shafted drill can be used for long periods of time without overheating or binding and can do a given job many times faster than the conventional type. It is especially useful with plastics materials having a highly abrasive action caused by the presence of glass-fiber and mineral fillers.

Department of Commerce Publications

Small Business Education—1950 is a booklet providing a list of topics and pertinent references to small business education, arranged both by topics and by level of instruction. The references are designed to be useful also to businessmen confronted with problems in a number of specific fields, including production, marketing, finance, insurance, and personnel. Copies are available for 30 cents from the Chicago office of the U. S. Department of Commerce, 221 North LaSalle Street.

Selling the U. S. Market (135 pages, \$1.00) is a marketing guidebook for distributors and manufacturers. It contains comprehensive statistical and descriptive data on the 168 Standard Metropolitan areas in the United States, listing the production centers for 18 different classes of products, and containing 15 distribution studies as well as maps. The bulk of the book is given over to analyses of distribution problems and methods by which they are attacked. It also is available from the Chicago office of the Department of Commerce.

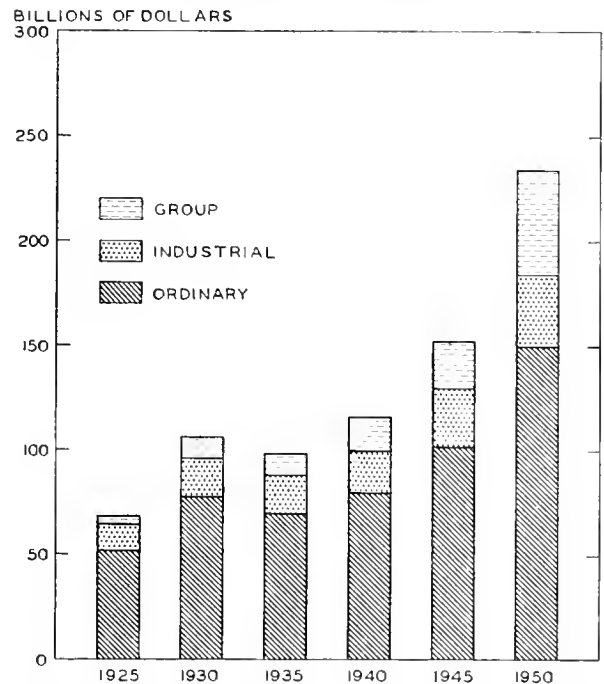
Fungicide for Textiles

A new combination fungicide made by the Nuodex Products Company, Elizabeth, New Jersey, has been developed to make cotton duck resistant to mildew. A dispersible paste that flows at room temperature, the product can be incorporated in textile-treating compositions. It meets government specifications for protecting tarpaulins, barracks bags, arctic sleeping bags, belts, leggings, and truck covers. Various weights of duck used for work gloves and shoes with canvas uppers, as well as light-weight duck used in laminated clothing, can also be treated.

Life Insurance Fact Book

The Institute of Life Insurance, an organization of legal reserve life insurance companies, publishes a booklet each year in order to make available fundamental facts about the life insurance business. Its statistics show increasing recognition of life insurance as a basic implement of family financial protection. In 1900 only 13 percent of the population owned life insurance. Today 55 percent are insured and four out of every five families in the United States own policies. During the past 50 years the number of people owning life insurance has increased eightfold, from 10 million to 83 million, while the population has only doubled. There are now 18 million more policyholders than there were 10 years ago and their average investment has increased by nearly 60 percent. As a result, total life insurance owned by U. S. families at the end of 1950 had risen to a record \$234 billion, double the total of 10 years before. As shown on the chart, two-thirds of the gain occurred in the five-year period since the end of World War II, and the share of group insurance is increasing while the proportion invested in ordinary and industrial insurance is going down.

LIFE INSURANCE IN FORCE IN THE UNITED STATES



Sources: *Spectator Year Book*; Institute of Life Insurance.

Pension Plans

A booklet entitled "A Brief Guide to Pension Plans and Profit Sharing Retirement Trusts" has just been published by Drexel and Company, investment banking firm. Although it does not cover the subject in detail, the booklet discusses some of the more important features that should be considered in the adoption of such plans, and points out some of the various advantages.

THE ST. LAWRENCE SEAWAY

ROBERT BANGS, Office of Program Planning, U. S. Department of Commerce

The St. Lawrence Seaway and Power Project, a long-pending program for joint United States-Canadian completion of a 27-foot navigation channel from the Atlantic Ocean to the Great Lakes (see map), and for simultaneous development of the hydroelectric resources of the St. Lawrence River, narrowly failed to win approval of the House Public Works Committee in the first session of the 82nd Congress. As a result of this latest delay, Canadian Prime Minister St. Laurent, in conference with President Truman on September 29, 1951, announced that Canada would proceed to develop the project on its own. President Truman agreed this would be a second-best solution if enabling legislation cannot be secured in the next session. Thus, in January Congress will be faced with what may be the last opportunity for this country to participate in this large-scale navigation and power project, which would bring important long-range benefits to the entire Midwestern region.

Legislative History

The St. Lawrence Seaway has a long history. Advocated by every administration since that of Woodrow Wilson, work on the project has repeatedly been postponed, largely by a combination of opposition interests in which the railroads, the coal mines, and the Atlantic and Gulf Coast ports have been prominent.

In 1919 a joint Canadian-United States Commission began investigations and recommended construction of the Seaway. During the Coolidge and Hoover administrations detailed plans for combined navigation and power development were worked out. In July, 1932, a treaty was negotiated with Canada providing for construction of the project by the two countries. In March, 1934, a Senate majority favored ratifying the 1932 treaty but the measure failed to attain the two-thirds vote required for treaty ratification.

In March, 1941, an agreement embodying provisions similar to the 1932 treaty, but requiring for approval only a simple majority in both the House and the Senate, was signed by the two countries. The outbreak of the war halted further consideration of the Seaway at that time. In the post-war period, although St. Lawrence bills twice have been favorably reported by the Senate Foreign Relations Committee, the project has failed to win floor consideration in the House.

This year's legislative developments began in January, when joint resolutions to approve the 1941 agreement and to authorize construction of the navigation and power works were introduced in both houses of Congress. The Public Works Committee of the House held extensive public hearings and executive sessions from February until June, but on July 26, 1951, tabled the resolution by a vote of 15 to 12. A second bill with slightly different provisions, including a special bond issue and St. Lawrence fund in the Treasury, was introduced October 1 but was also tabled by the Committee without a vote.

In the Senate, the resolution was not taken up pending House action and because of the greater urgency of military aid legislation and other foreign policy matters. Following the

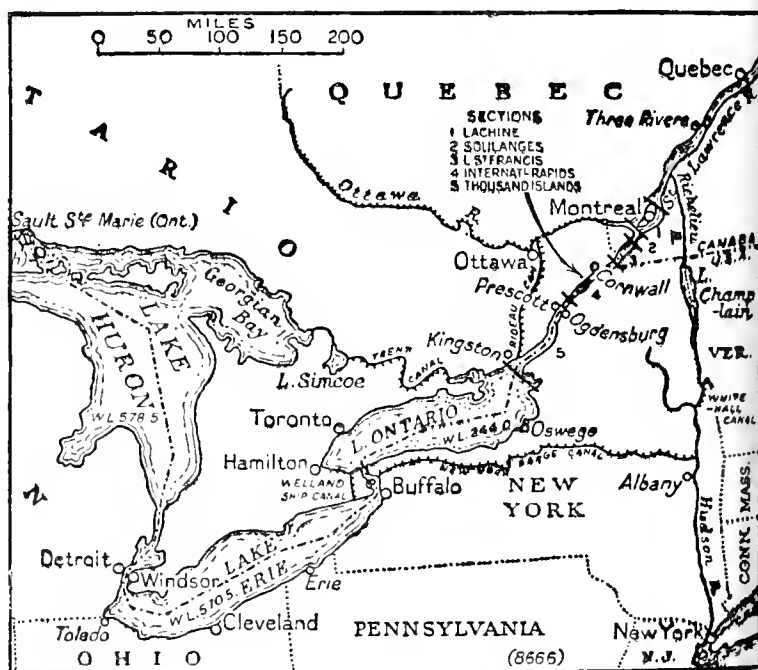
Canadian announcement of intention to build the project alone, a rider authorizing the St. Lawrence work was offered as an amendment to the foreign aid bill but was withdrawn by its sponsors when early consideration of the measure in the second session of the present Congress was promised by the Foreign Relations Committee.

At the opening of the fall session of Parliament the Canadian Government indicated it will seek establishment of a new agency, probably a Crown corporation, to proceed with the St. Lawrence development. If the Canadians carry out their plans the proposed new canals would be relocated to lie entirely within Canadian territory.

Work Remaining and Cost

The remaining work to be done on the St. Lawrence project is primarily in the International and Canadian Rapids Sections of the River, from Montreal to Ogdensburg, New York, a distance of 114 miles. This area is now served by an antiquated system of 14-foot canals; these would be reconstructed to handle ocean-going vessels. The project also contemplates dredging operations in the Detroit and St. Clair rivers, in the Thousand Islands section of the St. Lawrence River, and in the Straits of Mackinac to deepen the channel to 27 feet. The power phase of the project calls for a large dam and power station at Barnhart Island near Cornwall, Ontario. This plant would have a capacity of 1,880,000 kilowatts and would be capable of yielding 6.3 billion kilowatt-hours of energy per year to the U. S. at a cost of 1.77 mills per kwh. This is less than the cost of fuel alone for steam plants in the area.

The total cost of completing the navigation and power works was estimated by the Corps of Engineers in February, 1951, to be \$818 million. This would be spread over the 5- to 7-year period needed for the work. Under the 1941 agreement, costs are to be shared equally between Canada and the United States, with Canada receiving



credit for work already completed, including the Welland Canal and improvements in the Thousand Islands section. To date, Canada, with one-tenth our population and lower per capita income, has spent 4 times as much as the United States on seaway development. Thus the estimated cost to the U. S. of the remaining work is \$567 million, of which \$375 million is allocable to the navigation works and \$192 million to the power project.

Cases For and Against Project

In this year's hearings the Administration witnesses, including General Marshall and Defense Mobilizer Charles E. Wilson, emphasized particularly the importance of the Seaway to national defense. Pointing out that the Mesabi iron ore reserves, already depleted by two wars, cannot indefinitely meet all the requirements of our expanding steel industry, these witnesses and others favorable to the program cited the strategic importance of the Seaway as a method of economically transporting iron ore from the newly developed fields in Labrador to existing steel mills in the Great Lakes area. To operate our expanding steel capacity we are now importing iron ore from Liberia and Venezuela, sources that might easily be cut off in time of hostilities.

In addition to strengthening our iron ore supply lines, the Seaway would provide access to additional ship-building and repair facilities, would shorten the open-sea portion of shipping routes between the United States and the British Isles, and would eliminate costly rail hauls on American exports originating in Great Lakes cities. In its formal report on the proposed legislation the Defense Department concluded that the St. Lawrence project would have "great industrial and logistic value."

These defense considerations supplement the more familiar reasons for undertaking the project as a sound investment in improving our transportation system. The navigation works would be entirely self-liquidating, with tolls collected from traffic using the Waterway conservatively estimated to be ample to meet all operating costs and amortize the investment of a 50-year period. The power phase would also pay for itself and would supply very low-cost power to an area that is already short and that contains important industrial facilities including a large aluminum plant at Massena, N. Y., recently reactivated. This plant is now served by expensive steam power necessitating a premium price for all aluminum produced there. St. Lawrence power at Barnhart Island would save \$3,000,000 per year at this one plant.

Opponents of the project contended that it would be vulnerable in the event of war, would divert traffic from existing railroads and ports, would cost far more than the estimates, and would not actually develop the volume of traffic expected. They also contended it would be of value primarily to foreign rather than to U. S. shipping.

Benefits to Midwest

For the Midwest, completion of the Seaway would bring important advantages, including the attraction of new industries, cheaper freight rates for grain and other agricultural products, and better access to world markets. Conservative forecasts of potential traffic that might develop over the Seaway include 10 million tons per year of United States and Canadian grain, 6 million tons of coal, 20 million tons of iron ore, and 10 million tons of other cargo. Newsprint, scrap iron, pulpwood, fertilizer, automobiles, and flour are all likely to move in volume over the St. Lawrence Waterway.

In 1949 traffic on the Great Lakes amounted to 168

million tons. The old St. Lawrence canals handled almost 8 million tons. This figure could be multiplied manyfold if the Waterway were rebuilt to handle ocean-going vessels.

It has been estimated that American and Canadian agriculture alone would save nearly \$5 million per year in transportation costs if the Seaway were in operation. A large part of these savings would accrue to the Midwest. The advantages of making such cities as Chicago, Detroit, Milwaukee, and Toledo ports for ocean-going vessels are obviously great not only for agriculture but for manufacturing and trade as well.

Without the Seaway, major industries such as steel-making may gradually be forced to relocate nearer to sources of raw material. This would weaken the regional economy of the central states, reduce employment opportunities, and limit the growth of incomes.

As our economy expands, transportation facilities must keep pace with industrial production. The St. Lawrence project is a forward-looking program for developing our natural resources that will pay dividends for years to come. If the project is built by Canada alone we shall lose a measure of control over it and will not have strengthened relations with our nearest neighbor. Our traffic may also have to pay higher tolls than if we join in the program. The time for decision is now.

Anomalies of the War Program

(Continued from page 2)

large pools of unemployment might be created, or that operations of numerous small business concerns would be forced below the break-even point.

To date, there is nothing to indicate that essential war work has suffered from inadequate materials allocations. The supplies allocated have been less than requested, but the requests were highly inflated and would have had to be cut back even if nothing were allowed for purely civilian use. The cutbacks, however, led to new inflations of claims; and it is now reported that demands for some forms of steel, copper, and aluminum for use in the second quarter of 1952 are up to almost 300 percent of the anticipated supply. Obviously, the burden on the control agencies increases. The only response they can make to progressive inflation of requests is progressive increase in cutbacks.

Over-all materials shortages have not yet become a critical issue of the war program, but if the present trend continues, allocations may well become one of the foremost unresolved issues. Without assurance of reason on the part of the claimants and cooperation on the part of the public, it cannot be demonstrated that the go-slow policy of the controllers is unsound.

Thus, for a variety of reasons, the pace of war production is being set with little regard for the over-all program decided upon. Even if Congress restricts new appropriations somewhat as compared with last year, funds are available to keep forging ahead; and even if the program is expanded, the next year or two will be needed to reach present goals, so that only in the more distant future will rates of output be greatly affected. Plans may be debated, approved, and changed. But the realities of the situation will continue to determine what gets done.

VLB

LOCAL ILLINOIS DEVELOPMENTS

All available indexes indicate an expansion in Illinois business activity from September to October as the fall pick-up got under way. Several of the indexes—electric power production, coal production, bank debits, and life insurance sales—showed increases ranging from 14 percent to 20 percent over the previous month. Advances over the level of October, 1950, were fairly general although somewhat smaller than the monthly changes. Steel production in the Chicago district rose 2.3 percent to 1.9 million net tons during October. The rise was due entirely to the longer month, since scheduled operations dropped from 103.7 percent of capacity to 102.4 percent.

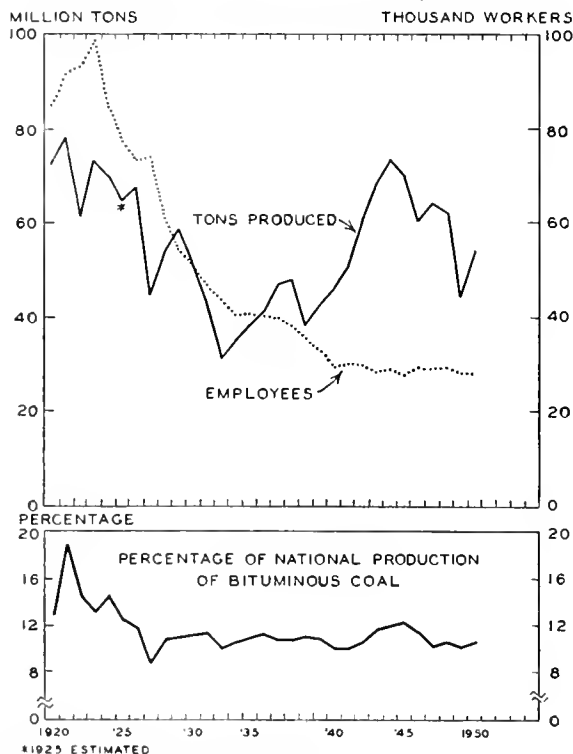
Illinois Coal

The relative importance of the coal-mining industry as a provider of jobs in the State has been declining for many years, as shown by the accompanying chart. Employment in the industry decreased steadily from 99,000 in 1923 to 30,000 in 1940, and has since remained near the 1940 level.

Production has also fallen, but not so sharply because of the major technological advances in coal-mining machinery. Output fell from more than 78 million tons in 1921, when Illinois accounted for 19 percent of national production of bituminous coal, to 31 million tons in 1932, about 10 percent of the national total.

Not until World War II did production again approach the previous high. With the end of the war, production began to slide and dropped to 44 million tons before this downward trend was reversed by the 1950 recovery and Korea. Throughout the ups and down of the last 20 years, the State's share of national bituminous coal production has remained fairly stable except during the war, when it rose to about 12 percent.

ILLINOIS SHIPPING MINES, 1920-1950



Source: Illinois Coal Report, 1950.

Prices Level or Rising

The consumers' price index for Chicago rose 0.9 percent during the month ended October 15. All component groups except apparel shared in the increase to 193.5 (1935-39 = 100). Food prices rose 1.7 percent; house-furnishings, rent, fuel-electricity-refrigeration, and miscellaneous goods and services showed fractional rises.

Agricultural prices rose two index points from September 15 to October 15, to 308 (1910-14 = 100). Only feed grain and hay and fruits declined; all other groups showed slight increases. Prices paid by farmers were up only one index point to 283, causing the parity ratio to rise from 103 to 105.

Road Program

The State's highway improvement project hit a snag in November, when a circuit court declared unconstitutional that part of the recently-passed highway finance bill which raised truck license fees. Until a final decision on the matter is reached, truck licenses will be issued according to the old schedule of fees. Originally, the higher rates were expected to produce \$20 million annually for road maintenance and construction during 1952 and 1953, and an additional \$8 million during 1954.

During the fiscal year beginning July 1, 1952, Illinois will receive \$21.6 million from Federal highway aid funds totaling \$500 million for the year. The State's share will be divided about as follows:

Federal-aid highways	\$8,518,000
Feeder roads	4,639,000
Urban highways	8,466,000

Construction Contract Awards Rise

Construction contracts awarded during October rose nearly 5 percent to \$75.4 million. All three major components—residential, nonresidential, and public works and utilities—increased, with the largest gain, 8.3 percent, occurring in nonresidential building. Manufacturing building is still marked by considerable strength; during October permit valuations rose from \$4.2 million to \$6.6 million. Compared with last year, nonresidential contracts were down only 1.4 percent, whereas residential contracts awarded were off 13.3 percent.

Despite building controls, the 1951 ten-month total was 2.1 percent over the corresponding period of 1950. A 3.8 percent gain in nonresidential building offset a drop of 5.3 percent in residential building.

Construction of new facilities and expansion of existing plant for petroleum processing and chemical production are accounting for an important part of total construction in Illinois. Shell Oil will soon undertake an improvement and expansion program to raise daily production capacity at the Wood River refinery by 2,100,000 gallons to 7,140,000 gallons. The \$42,500,000 project is expected to take three years for completion.

At Tuscola the newly-formed National Petro-Chemicals Corporation has acquired land for the construction of a plant to produce chemicals such as ethane, propane, and natural gasoline from natural gas. The estimated cost of the plant is put at \$32 million.

Some relief from the sulfur shortage will be obtained when a \$1.6 million plant at East St. Louis for production of sulfuric acid goes into operation early next year. New equipment will allow the Allied Chemical and Dye Corporation to reclaim sulfuric acid used in oil refining.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

October, 1951

	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS	\$24,366 ^a	846,736 ^a	\$489,412 ^a		\$11,587 ^a	\$13,016 ^a
Percentage Change from..... {Sept., 1951.....	-13.6	+5.6	+3.4	+11.6	+14.1	+18.0
{Oct., 1950.....	-15.0	+2.2	-0.6	+8.2	+12.0	+13.4
NORTHERN ILLINOIS						
Chicago	\$17,791	656,675	\$356,015		\$10,426	\$11,429
Percentage Change from..... {Sept., 1951.....	-11.0	+2.7	+3.5	+11.3	+13.4	+18.2
{Oct., 1950.....	-51.8	+0.8	-1.7	+6.0	+11.4	+13.5
Aurora	\$ 304	n.a.	\$6,995		\$ 47	\$ 85
Percentage Change from..... {Sept., 1951.....	-32.6		+5.1	+1.7	+12.8	+2.0
{Oct., 1950.....	+26.7		+5.3	+5.8	+18.1	+4.1
Elgin	\$ 434	n.a.	\$5,083		\$ 29	\$ 102
Percentage Change from..... {Sept., 1951.....	+12.1		+3.0	0.0	+1.1	+58.6
{Oct., 1950.....	+30.3		+1.5	+15.6	+11.1	+37.1
Joliet	\$ 420	n.a.	\$9,252		\$ 54	\$ 79
Percentage Change from..... {Sept., 1951.....	+1.7		-3.2	+0.1	+10.1	+29.6
{Oct., 1950.....	-41.1		+5.7	+6.3	+18.6	+48.3
Kankakee	\$ 131	n.a.	\$4,578		n.a.	\$ 37
Percentage Change from..... {Sept., 1951.....	-30.7		+1.5	+4.3		+30.5
{Oct., 1950.....	-47.4		+1.8	+10.9		+10.1
Rock Island-Moline	\$1,132	17,367	\$10,289		\$ 38 ^b	\$ 159
Percentage Change from..... {Sept., 1951.....	-35.6	+4.4	+7.6	n.a.	+13.9	+35.6
{Oct., 1950.....	+39.6	+18.1	+12.1		+23.2	+11.8
Rockford	\$ 847	25,213	\$15,157		\$ 132	\$ 160
Percentage Change from..... {Sept., 1951.....	-35.1	+7.4	+2.2	+6.2	+6.5	+23.0
{Oct., 1950.....	+17.3	+1.5	+5.2	+3.5	+17.1	+9.1
CENTRAL ILLINOIS						
Bloomington	\$ 188	5,458	\$5,050		\$ 56	\$ 98
Percentage Change from..... {Sept., 1951.....	+43.5	+8.8	+6.4	n.a.	+21.6	+28.7
{Oct., 1950.....	-44.7	+13.0	-4.4		+12.6	+12.6
Champaign-Urbana	\$ 176	7,781	\$7,176		\$ 64	\$ 86
Percentage Change from..... {Sept., 1951.....	-56.4	+20.0	+13.0	n.a.	+36.6	-38.8
{Oct., 1950.....	-16.6	+9.8	+1.9		+19.5	-1.9
Danville	\$ 214	7,175	\$5,701		\$ 43	\$ 59
Percentage Change from..... {Sept., 1951.....	0.0	-7.3	+2.7	+10.8	+4.5	+38.3
{Oct., 1950.....	+92.8	+8.7	+1.1	+23.8	+20.3	+14.3
Decatur	\$ 658	20,155	\$9,045		\$ 135	\$ 102
Percentage Change from..... {Sept., 1951.....	+131.7	+21.1	+2.8	+9.9	+69.9	+33.7
{Oct., 1950.....	-1.6	+14.0	-1.8	+19.3	+30.4	+25.6
Galesburg	\$ 98	5,546	\$3,944		n.a.	\$ 32
Percentage Change from..... {Sept., 1951.....	-38.0	+14.0	-0.8	n.a.		-58.6
{Oct., 1950.....	-84.2	+13.0	+1.2			+13.6
Peoria	\$ 195	45,207 ^c	\$15,477		\$ 232	\$ 193
Percentage Change from..... {Sept., 1951.....	-74.4	+76.1	-1.0	+18.6	+22.3	+26.3
{Oct., 1950.....	-69.8	+1.5	-6.9	+7.3	+13.4	+10.8
Quincy	\$ 277	6,558	\$4,707		\$ 40	\$ 76
Percentage Change from..... {Sept., 1951.....	-36.6	+1.7	+4.0	+9.0	+24.8	+44.6
{Oct., 1950.....	-31.3	+1.4	+2.2	+6.0	+16.5	-0.1
Springfield	\$ 365	23,196 ^c	\$13,357		\$ 94	\$ 195
Percentage Change from..... {Sept., 1951.....	-52.0	+5.7	+6.1	+67.1	+11.5	+21.6
{Oct., 1950.....	-36.1	+14.8	+2.7	+68.4	+10.1	+7.4
SOUTHERN ILLINOIS						
East St. Louis	\$ 161	11,454	\$9,144		\$ 166	\$ 49
Percentage Change from..... {Sept., 1951.....	-39.9	-1.2	+1.4	n.a.	+25.4	+13.3
{Oct., 1950.....	-39.7	+15.4	+10.0		+19.8	-0.1
Alton	\$ 94	10,469	\$4,488		\$ 30	\$ 27
Percentage Change from..... {Sept., 1951.....	-52.3	-4.8	+3.8	n.a.	+7.0	+22.0
{Oct., 1950.....	-66.3	-6.0	+6.1		+9.8	+18.2
Belleville	\$ 881	4,482	\$3,954		n.a.	\$ 48
Percentage Change from..... {Sept., 1951.....	+961.4	-7.8	-1.6	n.a.		+26.4
{Oct., 1950.....	+533.8	+12.2	+8.7			+40.3

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for September, 1951, the most recent available. Comparisons relate to August, 1951. ⁴ Research Department of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

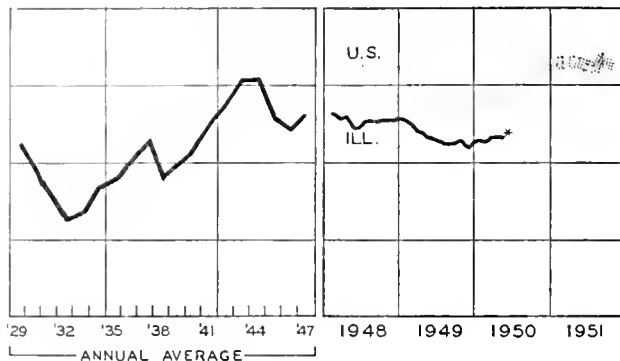
^c Includes immediately surrounding territory.

n.a. Not available.

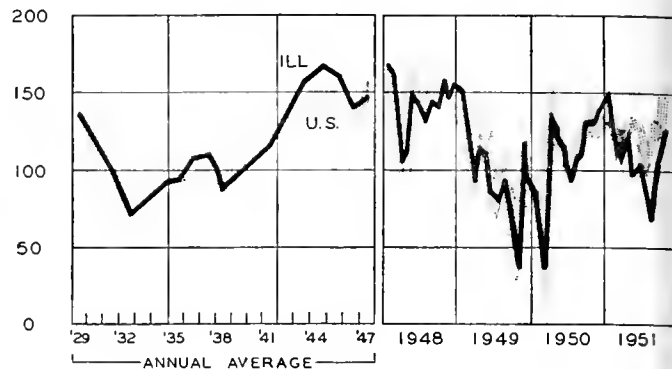
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

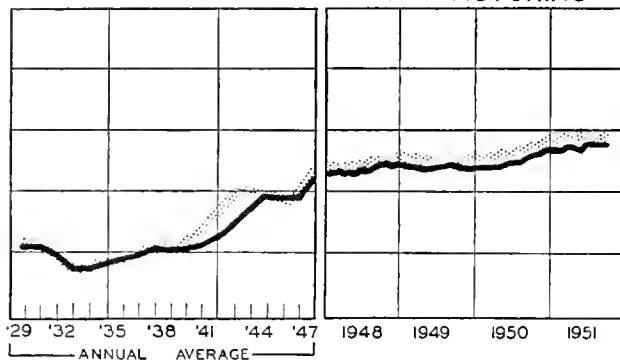
EMPLOYMENT - MANUFACTURING



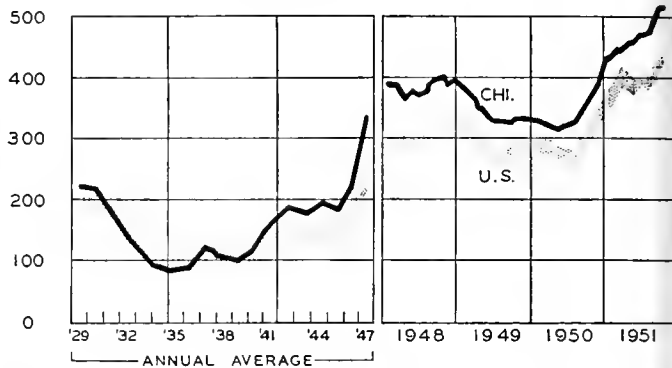
COAL PRODUCTION



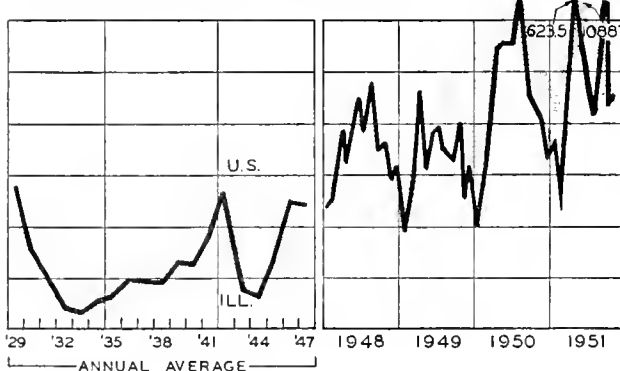
AVG. WKLY. EARNINGS - MANUFACTURING



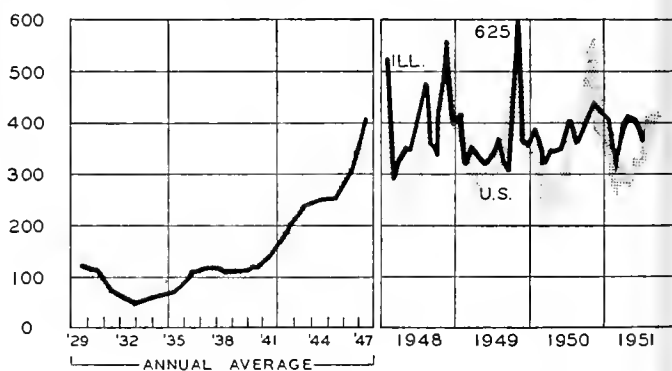
BUSINESS LOANS



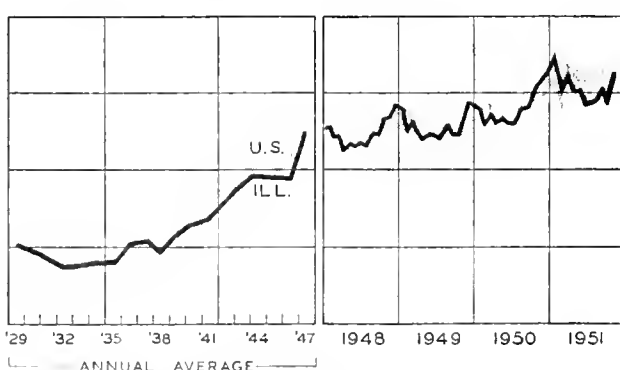
CONSTRUCTION CONTRACTS AWARDED



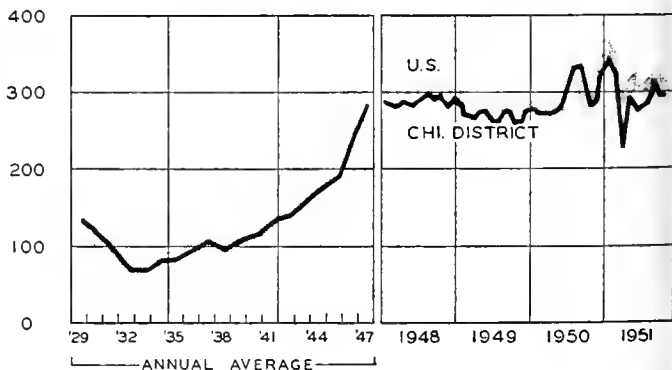
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



* Illinois figures being revised.

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ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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JAN 31 1952

VOLUME IX JANUARY, 1952 NUMBER 1

HIGHLIGHTS OF BUSINESS IN DECEMBER

The volume of industrial production at the end of 1951 was at much the same level as at the end of 1950, when it stood at 220 percent of base-period production in December. With the lag in military production, consumer goods output during the year fared much better than anyone had hoped at its beginning, with both hard goods and soft goods in plentiful supply. The 5.3 million passenger cars produced in 1951 amounted to only four-fifths of the record 1950 output but, with consumers buying in moderation, proved sufficient to satisfy the demand.

Employment Down

The number of civilians at work in December declined 300,000 to 61.0 million, as a sharp drop in farm employment caused by severe weather conditions more than offset a slight increase in nonfarm employment. Heavy demand for help in the Christmas shopping season brought unemployment down 8 percent to 1.7 million, almost a postwar low.

The principal change in the labor force over the past year has been a decline of almost 600,000 in the number of unemployed, accompanied by a slightly greater rise in employment. Almost all the increase in employment has been in the nonagricultural sector. The total civilian labor force now numbers 62.7 million, about the same size as at the end of 1950.

Wholesale Prices Steady

A decline of 0.3 percent during December brought the Bureau of Labor Statistics index of wholesale prices at the end of last year to much the same level as at its beginning—just a little more than 77 percent above the 1926 base-period level. Sharply higher prices for grains and foods, up 7.7 and 5.8 percent, respectively, were mainly offset for the year by a 7 percent decline in textile prices. For a longer-run view of price movements, see the special article on page 8.

Consumer prices, on the other hand, continued to rise. The consumers' price index was up 0.6 percent in the month ended November 15, 1951, to 188.6 percent of the 1935-39 average, largely because of an increase of almost 10 percent in the prices of fresh fruits and vegetables. In December, however, food prices may have leveled off, judging by a reported decline of 1.2 percent in grocery store prices between November 26 and December 15.

Interest Rates Rise

The cost of borrowing is going up. The need for funds to finance rearmament and business expansion programs has created an almost unprecedented demand for loans so that, despite the ever-increasing amount of bank deposits and resources, bankers are able to find a ready market for their funds. Partly as a result of this factor, the rate on some long-term loans by the end of the year was as high as 3.7 percent as compared with about 3 percent a year ago.

The Federal Reserve Board has also been instrumental in the rise in interest rates, hoping that this will serve to check the rise of the money supply and thereby reduce inflationary pressures. The Board exerted pressure by ceasing to purchase short-term U. S. securities from the banks. This forces banks to borrow money directly from the Federal Reserve Banks, the present charge for which is 1 3/4 percent instead of the 1 1/2 percent on government securities. Having to pay more for the money themselves, the banks are led to increase their own interest charges to maintain revenues, and this raises the cost of the loans to business. By tactics such as these, the Federal Reserve hopes to prevent commercial loans of banks from rising much above the year-end level of \$21.5 billion.

Construction in 1951

Final figures for the year reveal that nearly \$30 billion of new construction was put in place during 1951. This amount exceeds the 1950 figure by 7 percent. Greatly increased public outlays for military construction, defense plants, and schools more than compensated for a 15 percent decline in private home building. Despite this decline, over one million new homes were started in 1950.

Total private outlays on new construction aggregated \$20.8 billion, the same amount as in 1950. This total, however, conceals a pronounced downward trend during the year as building restrictions began to take effect, with private construction expenditures 12 percent below end-1950 levels. Public outlays in 1951 exceeded the 1950 total by 27 percent, with military construction expanded sixfold and defense plants fourfold.

Despite the larger dollar outlays in 1951 there was no over-all increase in the physical volume of new construction put in place in 1951. The additional amount spent was absorbed by higher construction costs.

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Allocating the World's Materials

Ten years ago Churchill, as wartime Prime Minister, met President Roosevelt on shipboard to hold a series of personal talks from which the Atlantic Charter emerged. Among its provisions was one giving all States "access on equal terms, to the raw materials of the world which are needed for their economic prosperity."

It is significant that the problems of materials supply, and their repercussions in various parts of the world, should again be among the high policy issues discussed when Churchill recently came to Washington for a new series of talks with President Truman.

Putting Our Own Needs First

During the war that intervened, and to a lesser extent in the postwar period of growing hostility, we invoked measures of economic warfare to undermine the power of our enemies. One of the devices used was preclusive buying of the materials needed for their industrial operations.

After the outbreak of the Korean War, similar action was in effect taken against Allies as well as enemies, though this resulted accidentally rather than with deliberate intent. What happened was that we bought up everything in sight, sharply reducing the supplies available for anyone else. The seriousness of this action for our European Allies can be realized only by considering how heavily dependent most of them are on imported materials.

Although the war program was being stepped up sharply in the latter part of 1950, much of our buying was for inventory rather than for current use. In a panic to cover possible future as well as current needs, the government vigorously pushed its program for stockpiling critical materials. Accumulation of materials for strategic stockpiles had been allowed to lag seriously, as no appropriations were made for stockpiling in 1949, when supplies were readily available. Now, an effort was made to remedy past deficiencies as well as push ahead more rapidly. In some cases, it was proposed to purchase and put away as much as half the world's supply, though the implication of this would have been to cut civilian use below the point of severest wartime restriction. Large requirements for wool, which had not been a stockpiling

item several months before, were added to the procurement schedules.

The buying surge was not confined to government. Consumers began to hoard some items. Business made a rush to protect itself against shortages and rising prices.

With the short view dominating our foreign trade, imports soared, and so did prices. In the months of frantic buying, the price of wool was bid up from \$1.70 a pound to \$3.80; rubber from \$0.28 a pound to \$0.87; tin from \$0.77 to \$1.83.

Conflict with Suppliers over Prices

There followed the inevitable reaction. Steps had to be taken to prevent unrestricted bidding for limited supplies. First, importing of natural rubber was restricted to a government agency; later, tin also was placed under centralized procurement. After the worst of the pressure was over, in March, 1951, international arrangements were made to allocate available supplies through a voluntary conference of producing and consuming nations known as the International Materials Conference (IMC).

At the peak of the stratospheric price rise, Congressional committees began to raise questions about the payment of exorbitant prices. With responsibility centralized, these questions were definitely pointed. It was suggested that the United States should use its power as the biggest buyer of materials, and by the same token the biggest source of income to producing countries, to prevent its treasury from being raided by the sellers. In the summer, a new agency, the Defense Materials Procurement Agency, was set up to coordinate government buying activities.

Withholding of purchases was successful in bringing down the prices of some commodities, particularly non-durables like wool and rubber. Wool dropped back from \$3.80 to \$1.70 a pound; rubber from \$0.87 to \$0.52. Here, policy was reinforced by trends towards self-sufficiency based upon production of improved synthetic fibers and rubber. With the inventory letdown in the latter half of 1951, pressure on these prices was dissipated.

With respect to other commodities, success has been less marked. Prices have generally stabilized and sometimes even come down, but savings tend to be nominal because offerings have dried up, so that adequate supplies are not forthcoming at the reduced prices. The government has had to dip into strategic stores of copper and lead three times this year—to the extent of 55,000 tons of copper and 30,000 tons of lead. Tin inventories are also nearing exhaustion; and there is a growing controversy among government agencies as to whether we should dip into stockpiles of that metal also.

Faced with a buying monopoly, supplying countries have in turn attempted to organize selling, if not already organized, with governments supporting private producers to the fullest. Thus develops a kind of battle of the giants. At present, there is an impasse over the price of tin. We are offering \$1.12 a pound for tin. The Bolivians are asking \$1.50 a pound. In effect, they represent the entire tin cartel, composed of British, Dutch, Belgian, and Bolivian corporations, because there is no reason for the others to take less than we are willing to pay for high-cost Bolivian tin. These monopolists were led to believe by our earlier purchasing that their tin would be worth the peak price in the absence of monopolistic buying; so they continue to hold out and our supplies are dwindling.

(Continued on page 6)

THE BILLION DOLLAR SOAP INDUSTRY

The United States is the world's greatest producer, consumer, and exporter of soap. Manufacturers' sales of soap and its by-product, glycerin, increased more than threefold between 1939 and 1947, when they totaled \$1,085 million. Not included in this figure was the \$200 million sales volume of synthetic detergents, which were reported as a separate industry.

Although usually thought of in terms of personal cleanliness and household tasks, soap plays a vital role in many industries. The main components of synthetic rubber are combined in great vats of a soapy solution. Rubber for automobile tires is vulcanized in molds coated with soap to keep the tires from sticking.

Other industrial processes using soap as a lubricant include rolling aluminum, tin, and lead foils, and drawing the small wires used in telephone systems. Used as a polish in the jewelry trade, it also holds rust preventatives in suspension in antifreeze solutions, softens shoe leather, and scours the grease from wool.

The Industry in Illinois

The 19 Illinois plants manufacturing soap and glycerin during 1947 had a product value of \$105 million, a total exceeded only in Ohio and New Jersey. The State had the second largest number of workers in the industry, with 3,263 employees out of a national total of 27,000. Illinois plants averaged 170 workers, compared with a national average of 110.

A basic factor in the prominence of the industry in Illinois has been the abundant supply of inedible animal fats at the Chicago stockyards. The first step in the disposal of packing-house waste used to be to put all the inedible parts of the animals except the hides and wool into a tank and "cook" them under high steam pressure. The fat came to the surface and was drawn off to be used principally in soapmaking, while the nonfat portion was dried and sold as fertilizer.

Many packers started producing soap during the early 1900's to utilize their inedible tallow and grease. Today, although scientific methods of recovery yield a great variety of by-products, soapmaking is one of the most important adjuncts to the packing industry. Both Armour and Swift are among the leading soap manufacturers in the State. Other well-known Illinois producers include Procter and Gamble, Wrisley, and Fitzpatrick Brothers, makers of Kitchen Klenzer.

Production Processes

The manufacture of soap basically consists of the breaking down of fats and oils into fatty acids and glycerin by boiling them with an alkali, a process in which the fatty acids join with the alkali to form soap.

A century ago most homes depended on one all-purpose soap made in the spring from grease saved from cooking and the wood ashes from fireplaces. When hot water was poured through the ashes, the hard-working housewife obtained a potash alkali which she boiled with the fat to get a harsh and stringy soap.

Soapmakers today employ large-scale processes similar to the old-fashioned method with tallow and grease as their primary source of fat, supplemented by vegetable oils such as coconut, palm, and olive oil.

The fats are mixed and boiled with an alkali solution in two-story vats holding up to 175 tons of soap. When additional amounts of salt are added the soap separates from the glycerin, which settles to the bottom. A sirupy red liquid, the glycerin is then distilled and bleached for use in hundreds of industries, including the manufacture of medicinals, cosmetics, and food products. The bulk of the glycerin used in making explosives is supplied by the nation's soap factories.

After it leaves the vats the melted soap is formed into whatever end product is desired. In order to make an all-purpose bar soap, the hot mixture is whipped into a creamy mass, poured into half-ton iron molds or "frames" to be aged for several days, and then cut into cakes and stamped with lettering. High-grade perfumed toilet soaps are not "frame" soaps but are "milled," or kneaded, by heavy rollers into thin ribbons which are forced out of a nozzle as a compact cylinder ready to be cut and shaped.

In making flakes, warm flowing soap is rolled into a thin film which is cut into ribbons and broken into small flakes. Quick-dissolving granulated soaps, first produced about 20 years ago, are made by spraying molten soap into the top of a giant eight-story tower. As it falls in a fine mist, the soap spray is dried into the familiar granules by heated air.

Soaps vs. Synthetics

The methods and raw materials used in producing synthetic detergents are entirely different from those of soapmaking. The majority are based on petroleum products or coal-tar derivatives such as naphthalene, although some synthetics are made from the hydrogenation of acids and fats and oils.

In contrast to the 20-century history of soap, 20-year old synthetic detergents have had an amazingly rapid development. The combined consumption of soap and detergents averaged 29 pounds per civilian during 1946-1950, compared with 26 pounds in 1935-1939. Civilian consumption of soap alone, however, averaged less during the past two years than in any year since 1921.

Sales of synthetics, on the other hand, went up from less than 1 pound per capita in 1942 to 8 pounds in 1950. Consumption was estimated at 1,200 million pounds in 1950, one-fourth of the total for soap and synthetic detergents combined. They compete primarily in the field of granulated soaps, which represented almost 40 percent of the total quantity of soap made in 1947.

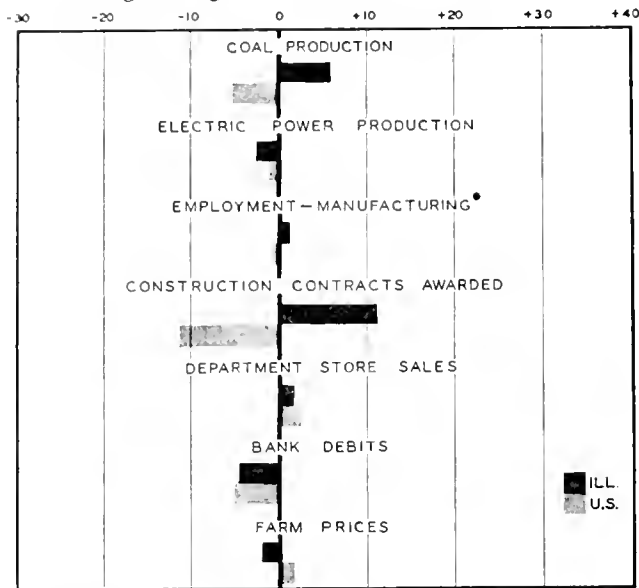
It is expected that during the next few years sales of synthetics will increase to 2 million pounds and further reduce the nation's production and consumption of soap, still another example of the successful invasion of synthetics in a well-established field.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes October, 1951, to November, 1951



*September, 1951, to October, 1951

ILLINOIS BUSINESS INDEXES

Item	November 1951 (1935-39 = 100)	Percentage Change from	
		October 1951	Nov. 1950
Electric power ¹	318.9	- 2.6	- 0.1
Coal production ²	134.6	+ 6.0	- 4.5
Employment—manufacturing ³	n.a.	+ 1.2 ^a	+ 1.0 ^b
Payrolls—manufacturing ³	n.a.		
Dept. store sales in Chicago ⁴	245.6 ^c	+ 3.5	+ 2.5
Consumer prices in Chicago ⁵	194.3 ^d	+ 0.4	+ 7.6
Construction contracts awarded ⁶	504.9	+11.3	+22.7
Bank debits ⁷	354.3	- 4.7	+ 9.5
Farm prices ⁸	271.0	- 2.0	+11.0
Life insurance sales (ordinary) ⁹	217.7	+ 3.2	+11.8
Petroleum production ¹⁰	218.4	- 6.0	- 0.9

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a September to October, 1951. ^b October, 1950, to October, 1951. ^c Seasonally adjusted. ^d New series. Old series index for November was 195.4. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	November 1951	Percentage Change from	
		October 1951	Nov. 1950
	Annual rate in billion \$		
Personal income ¹	256.7	- 0.3	+ 8.6
Manufacturing ¹			
Sales.....	272.4 ^a	+ 0.4	+10.7
Inventories.....	41.4 ^{a, b}	0.0	+28.6
New construction activity ¹			
Private residential.....	11.0	- 2.7	-18.8
Private nonresidential.....	9.3	- 9.5	+ 0.8
Total public.....	9.8	-12.8	+22.9
Foreign trade ¹			
Merchandise exports.....	16.6	+20.0	+41.7
Merchandise imports.....	9.8	-1.8	-4.2
Excess of exports.....	6.8	+76.3	-54.2
Consumer credit outstanding ²			
Total credit.....	20.0 ^b	+ 2.1	+ 3.0
Installment credit.....	13.2 ^b	+ 0.4	- 0.4
Business loans ²	20.9 ^b	+ 1.4	+22.8
Cash farm income ³	n.a.	.....	.....
	Indexes (1935-39 = 100)		
Industrial production ²			
Combined index.....	218 ^a	0.0	+ 1.4
Durable manufactures.....	275 ^a	+ 0.4	+ 5.8
Nondurable manufactures.....	188 ^a	0.0	- 4.6
Minerals.....	171 ^a	- 1.7	+ 6.9
Manufacturing employment ²			
Production workers.....	162 ^a	- 0.2	- 1.2
Factory worker earnings ⁴			
Average hours worked.....	107	- 0.2	- 2.0
Average hourly earnings.....	271	+ 0.3	+ 6.9
Average weekly earnings.....	291	+ 0.1	+ 4.8
Construction contracts awarded ⁵	394	-11.4	-14.3
Department store sales ²	311 ^a	+ 2.6	+ 7.2
Consumers' price index ⁴	189 ^c	+ 0.6	+ 6.9
Wholesale prices ⁴			
All commodities.....	221	+ 0.1	+ 3.8
Farm products.....	257	+ 1.5	+ 6.3
Foods.....	239	- 0.3	+ 7.8
Other.....	206	+ 0.1	+ 2.0
Farm prices ³			
Received by farmers.....	281	+ 1.7	+ 9.0
Paid by farmers.....	227	+ 4.4	+11.4
Parity ratio.....	106 ^d	+ 1.0	+ 1.0

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ^a Seasonally adjusted. ^b As of end of month. ^c New series 188.6; old series 189.3. ^d Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1951					1950
	Dec. 29	Dec. 22	Dec. 15	Dec. 8	Dec. 1	Dec. 30
Production:						
Bituminous coal (daily avg.)	1,554	1,783	1,912	1,874	2,024	1,907
Electric power by utilities	6,922	7,824	7,667	7,444	7,476	6,479
Motor vehicles (Wards)	35.2	102.8	111.4	112.5	112.8	127.0
Petroleum (daily avg.)	6,112	6,115	6,136	6,134	6,159	5,691
Steel	227.1	234.9	233.1	232.0	232.9	216.3
Freight carloadings	502	672	753	774	822	602
Department store sales	263	656	613	550	464	237
Commodity prices, wholesale:						
All commodities	177.3	177.0	177.1	177.1	177.7	177.0
Other than farm products and foods	165.5	165.6	165.6	165.5	165.2	167.8
28 commodities	328.7	328.3	327.2	328.7	326.5	367.6
Finance:						
Business loans	21,593	21,442	21,219	21,006	20,865	17,839
Failures, industrial and commercial	163	117	143	136	148	125

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Steel Production Remains High

Steel production continued high during December. The average weekly rate of production was 103.5 percent of estimated capacity, the equivalent of 2,069,000 tons weekly. Even the holidays failed to cut operations below 100 percent of rated capacity. Automotive production also rose a little during the first three weeks of December, when output averaged nearly 110,000 cars and trucks weekly. A combination of holiday closings and exhaustion of quotas cut production for the last week of December to less than 36,000 vehicles.

Steel production for the year totaled about 105 million tons, the first time output has exceeded 100 million tons. Automotive production during 1951 reached an estimated 6.7 million vehicles, considerably below but second only to 1950's total of 8.0 million. The entire cut appeared in passenger car output, which dropped from more than 6.6 million to 5.3 million. Truck production rose from 1.3 million vehicles to 1.4 million.

Scrap Shortages Serious

For the past few months, supplies of steel scrap have become a matter of increasing concern to steel producers. Without more adequate supplies of scrap, the present high rate of steel production is bound to fall. As shown in the accompanying chart, consumption has been on a high level since mid-1950 despite monthly ups and downs; stocks, on the other hand, have shrunk seriously.

By October, it was apparent that supplies would be tight over the winter months as collections and shipments were hindered by inclement weather. And by the

end of December, many steel mills had only a few days' inventories, in contrast to several weeks' stocks as they would have preferred. Under the impact of the higher demand, prices of scrap more than doubled between mid-1949 and early 1951, but in more recent months they have been held steady by controls, at least nominally.

About 36 million tons were required to turn out 1951's 105 million tons of steel; for the 1952 goal of 110 million tons of steel, 38 million tons of scrap will have to be supplied to the steel companies.

Scrap shortages of nonferrous metals have attracted less attention, but they are considered no less serious. Copper, lead, zinc, and aluminum have all been mentioned. It is generally believed that unless the situation improves substantially the projected expansion in metal-producing capacity will have to be reduced, and both military and civilian end products will also be cut.

Nonfarm Employment Rise

Nonagricultural employment rose during December to 54.6 million. Much of the rise was attributed to increased hiring to take care of the holiday trade. A seasonal decrease in farm work more than offset the nonfarm gain, so that total employment dropped slightly. Unemployment was down again and was close to the postwar low. Bureau of Census data, in thousands of workers, are as follows:

	December 1951	November 1951	December 1950
Civilian labor force.....	62,688	63,164	62,538
Employment.....	61,014	61,336	60,308
Agricultural.....	6,378	7,022	6,234
Nonagricultural.....	54,636	54,314	54,075
Unemployment.....	1,674	1,828	2,229

Capital Expenditures Continue at Peak Rate

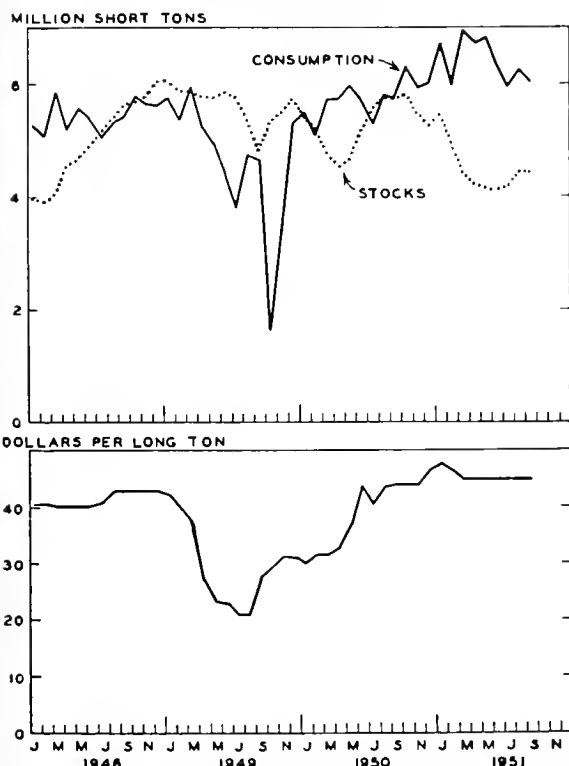
Recent Department of Commerce-Securities and Exchange Commission data indicate that business expenditures for plant and equipment are continuing at their record-breaking pace. For the first quarter of 1952, total outlays are estimated at \$5.7 billion, higher than in any previous first quarter. Of the total, manufacturing concerns account for more than \$3.0 billion.

A new series on manufacturing expenditures developed by the two agencies shows that only those industries producing directly and indirectly for defense are continuing to expand; nondefense industries are generally cutting back on their capital expenditures. Capital outlays by makers of transportation equipment (excluding motor vehicles) during the second half of 1951 were up 140 percent over the first half; outlays by producers of primary nonferrous metals and primary iron and steel rose 92 percent and 77 percent, respectively. Capital expenditure increases by other defense producers ranged from 43 percent for motor vehicles and equipment down to 13 percent for fabricated metal products.

Department Store Indexes Revised

The Federal Reserve Board has revised its indexes of department store sales and stocks. Four substantial changes have been made. The definition of a department store has been changed to take into consideration changes in the dollar volume of sales over the period of the last 10 years or so. Adjustments have been made to reflect the changes indicated by the 1939 and 1948 Censuses of Business. The base period has been moved forward from 1935-39 to 1947-49; and seasonal factors have been revised.

STEEL SCRAP CONSUMPTION, STOCKS,
AND PRICES



Sources: Bureau of Mines; Bureau of the Census; Bureau of Labor Statistics.

Such controversy is by no means confined to tin. The resulting dissatisfaction in supplying countries cannot help but affect our international position. Throughout the world, underdeveloped countries are in ferment, with results well illustrated by current difficulties in Iran and Egypt.

IMC Operations

The hope of handling some of these problems through IMC is that the process of discussion in an international forum might result in reasonable compromises, and even if these compromises are not satisfactory to all, it should at least dispel apprehension and resentment, and thus stabilize international relations along with materials prices. Several of the commodity committees of IMC have produced quarterly allocation plans, beginning with the third quarter of 1951. These plans cover such commodities as copper, zinc, nickel, cobalt, tungsten, molybdenum, and sulfur. Most of them have been duly approved, with some exceptions and reservations by the governments represented.

It is too soon to assess the effects of these plans. Some doubts have been voiced concerning their effectiveness in the absence of enforcement mechanisms. Certainly the incentives to depart from any such plan will in some circumstances be great.

The only long-term proposal worked out by IMC was a four-year plan controlling the price and distribution of tungsten. Approval of this plan was obtained by 13 consuming nations, led by the United States. It was put through over the objections of the producing countries in a stark display of economic power. Rejection of the plan by the producers was met in silence by the consumers, who have formed a trading bloc to control buying and indicate they will not pay more than the price stipulated in the agreement under any circumstances.

Dissatisfaction reigns also over the distribution of sulfur and molybdenum. Both these materials are produced in this country to the extent of about 90 percent of the supply available, so that what we are willing to give is what the other nations get. There has been a tendency here as in other cases to put our own needs first, including the need to keep prices in this country down. In doing this, we present ourselves as the defenders of the "free world" and cite stability in our "free enterprise system" as a key element in the strength of our defenses. One high government official, who in the early months of the Korean War was among the strongest advocates of stockpiling, asserts that we "must attain defense and at the same time maintain a sound economy; else all we are fighting for is lost."

Perhaps another look would lead to the conclusion that there are other ways of losing all. A former United States member of the IMC warns that our demands for scarce materials are endangering the economies of our allies. He pleads particularly the urgency of sharing our sulfur, because it is essential to the operation of so many industries.

Churchill and Truman have announced that a plan for cooperative handling of materials problems is being worked out. It may be hoped that this plan will deal with such problems in a longer and more stable perspective than any yet displayed, and that the solutions worked out will be real solutions, in the interests of all, and not merely to the advantage of the leading powers.

VLB

The samples used by the FRB for the two indexes have been reduced somewhat in size, but they are believed to be more representative. Weights have been re-assigned the 12 districts according to their postwar importance. The seasonal factor, which has been the subject of debate in recent years, has been altered to reflect postwar developments in consumer buying habits.

Retail Sales Still Lag

Dollar sales by retail stores totaled \$12.6 billion during November, 4.4 percent below the previous month. After adjustment for seasonal variations, sales were off 1.1 percent to \$12.4 billion. Nearly all of the decline resulted from a 4.1 percent drop in retail sales of durable goods; nondurable goods remained substantially level. Sales of the automotive group, which account for about one-half of total durables sales, dropped nearly 7 percent to \$2.0 billion.

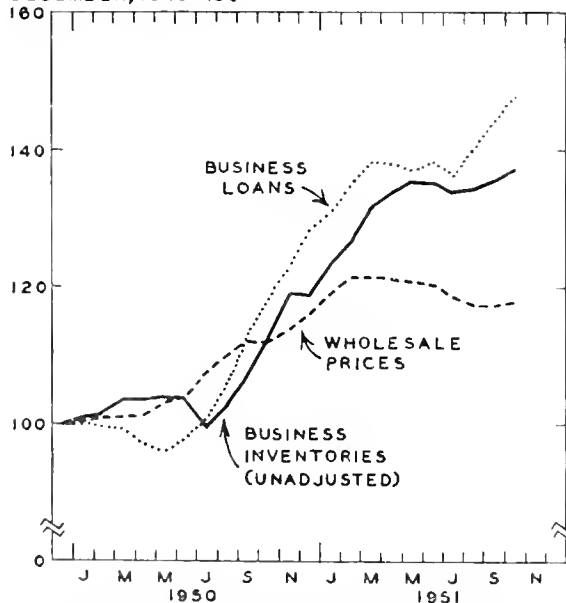
Credit Expanded

Consumer credit and business loans outstanding both advanced in the latest periods reported. Consumer credit was up by \$410 million in November to \$20.0 billion. By far the greater portion of the month's increase, \$338 million, represented expansion of charge accounts.

Bank loans to businesses rose by 3.5 percent during December to \$21.6 billion. About half the increase occurred in the New York Federal Reserve District, though all districts except one (Minneapolis) registered sizable rises percentagewise. As shown in the accompanying chart, the increases in business loans and business inventories (unadjusted) remained fairly close together from July, 1950, to July, 1951; but in more recent months business loans have expanded more rapidly. It can be seen from the chart that changes in the comprehensive index of wholesale prices have preceded changes in business loans, which have in turn led movements in inventories.

PRICES, INVENTORIES, AND LOANS

DECEMBER, 1949=100



Sources: Bureau of Labor Statistics; Dept. of Commerce; Federal Reserve Board.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Financing Small Business

The November issue of the *Survey of Current Business* contains an article on "Financing Small Business in the Postwar Period." It is a brief description of the preliminary findings of a study on business financing made by the Office of Business Economics and covering the 12-month period ended June 30, 1950. Two out of three of the small and intermediate-sized manufacturing and retail trade firms included in the study financed their requirements from internal sources. The majority of small businesses needing outside capital were satisfied with the amount of funds available, and their demands were primarily in the form of borrowed, rather than equity, capital. Banks were the major source of these funds, but other financial institutions, friends, and relatives made up an important auxiliary source of financing. While working capital requirements accounted for the principal share of total demand for outside funds, longer term requirements were also important in the demand picture. Cost of capital funds did not appear to be a deterrent to borrowing. The amount of funds desired but not obtained accounted for roughly \$1 billion, or about one-sixth of the total demand.

Porcelain Enamel Finishing Process

A new process for finishing kitchen ranges, refrigerators, and other porcelain enamel products has been developed by the Republic Steel Corporation and the Ferro Corporation of Cleveland. It is expected to broaden greatly the use of porcelain enamels by permitting direct application of a single coat of enamel, eliminating a ground coat or the necessity for using premium steels. A special pickling process producing a sharper etch than the conventional sulfuric acid pickle is used, and the crux of the new process lies in a nongalvanic nickel deposition process which provides the rough surface needed to give the steel the required adhesion. The one-coat finish is only half as thick as ordinary porcelain enamel coating. Products enameled in this way can be bent, drilled, sheared, and sawed with clean edges. Surface, reflection, and color qualities are equal to conventional finishes.

Technical Aid to Industry

The vast outflow of reports on technical and scientific research produced at government cost is a stockpile of technical and scientific know-how in which private industry can pick up many valuable suggestions for new products, new processes, and improvements in present industrial techniques. The Office of Technical Services (Library Division) of the Department of Commerce catalogues these reports and lists and gives abstracts of the latest acquisitions in a monthly publication, *Bibliography of Technical Reports*. Subscriptions to the Bibliography are \$5.00 a year. Inserted in each issue is a four-page Newsletter which highlights the most valuable and immediately applicable technical developments. This Newsletter is also available as a separate publication at the subscription price of 50 cents per year. Sample copies of the Bibliography and the Newsletter will be mailed free to interested parties by the Office of Technical Services, Department of Commerce, Washington 25, D. C.

Rustproofing Compound

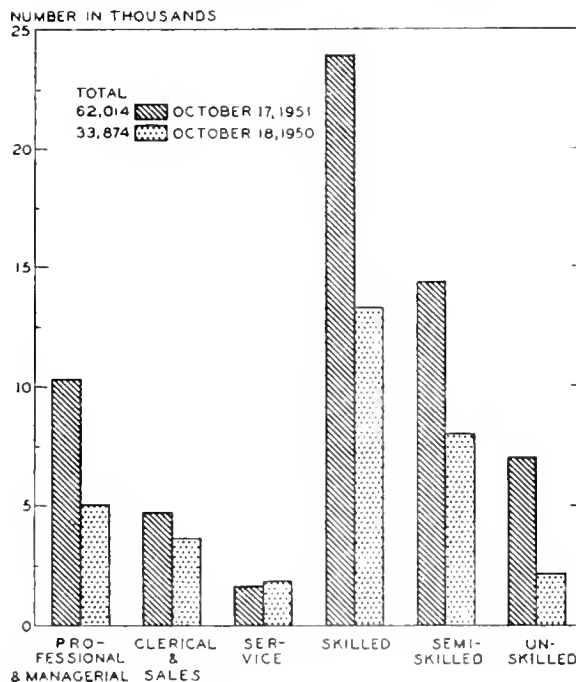
A so-called phosphatizing compound, known as "Rust-shield 2" made by Octagon Process, Inc. (15 Bank Street, Staten Island 1, N. Y.) is said to give steel and iron surfaces a rustproof, highly absorbent nonmetallic quality. The company explains that this type of treated steel surface is an effective base for retaining lubricating oils. The product can be applied to rubbing and sliding surfaces of precision parts and bearings of all kinds.

Employment Clearance Openings

The November issue of *The Labor Market*, published by the United States Department of Labor, contains an article discussing the total number of job openings which public employment offices could not fill locally and had to clear through other areas and states. After reaching a peak of 64,000 in June, 1951, clearance openings declined slightly, but, as shown by the chart, the October total of 62,000 was nearly double the number of such openings in October of the preceding year. The greatest increases between 1950 and 1951 occurred in the skilled and semi-skilled classifications, with the only decrease in the service group.

Hard-to-fill jobs in the skilled category have risen by more than 10,000 over the year and on October 17, 1951, accounted for nearly 40 percent of the total number of clearance openings. Greatest local shortages were still for machinists, machine-tool operators, tool-and-die makers, aircraft assembly workers, carpenters, welders, and airplane, auto, railroad, and other types of mechanics and repair men. The number of clearance openings for stenographers and typists bulks large, second only to that for machinists.

RISE IN CLEARANCE OPENINGS



HIGHER PRICE LEVEL NOT INEVITABLE

RUTH BIRDZELL, Research Assistant

Since commodity prices have gained a measure of stability after the initial war-induced spurts, a closer appraisal of recent price movements and levels is now possible.

Postwar prices began to fall late in 1948, as wartime shortages were worked off and the nation's industries completed their readjustments to a peacetime economy. The year 1949 witnessed a postwar low for most prices, with inventories being reduced as a corrective for the previous high rate of accumulation.

Recovery Slow Before Korea

Sensitive commodities in their rise from the 1949 low had advanced 15 percent by June, 1950, when hostilities started in Korea. Advances were general in all subgroups of the BLS index.

The comprehensive index of wholesale prices rose more slowly and by June, 1950, was up only 4 percent from the low. It is much less volatile than the sensitive index, being held steadier by the inclusion of manufactured and semiprocessed articles. Farm products, up a little more than 7 percent, were the chief factor in the recovery. Food prices had risen nearly 5 percent; industrial prices had advanced less than 3 percent. (See Chart 1.)

Prices of retail items showed their customary slower and more limited swings. The BLS consumers' price index, which is generally used as a measure of such prices, covers a broader field than the other indexes, taking in prices of noncommodity items such as rent and services. These noncommodity prices have been rising slowly and steadily throughout the postwar period.

The index dropped only 4 percent from the postwar peak, as a result of declines in prices of foods, apparel, and housefurnishings. Even though recovery started late

in 1949, consumer prices showed their usual lag, so that by the time war broke out in Korea, the index had risen but little from the low.

A Period of Sharp Increases

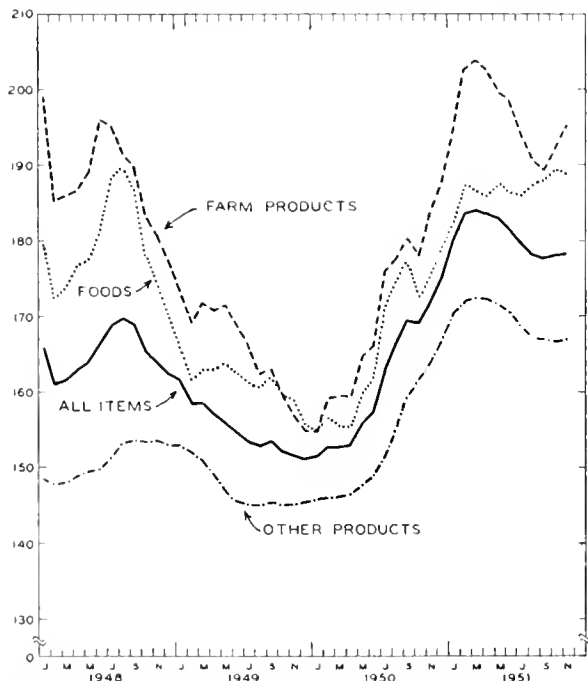
When the war started in Korea the picture changed drastically. Instead of foodstuffs pacing the rise in basic commodities, industrials took the lead. By February, 1951, when the boom ended, prices of sensitive industrial commodities were up 58 percent over the June, 1950, level to 379.5 (August, 1939 = 100). At that point, they were substantially higher than the previous postwar peak. In contrast, farm product and food prices had risen considerably less, 26 and 21 percent, respectively, and remained well under the peaks of January, 1948.

Prices of imported raw materials played an important part in the rise of industrial commodities. Even before Korea, the United States stockpiling program had been an important prop for prices of such items as tin and rubber, but with the coming of war, takings were greatly expanded. Speculation and fear of the outbreak of general war contributed generously to the new scramble for such raw materials. With supplies limited, import prices began to break previous records.

As in the case of basic items, wholesale prices of the larger selection of commodities rose very sharply from June, 1950, to early 1951. By the time the index hit its new peak in March, 1951, it had risen 17 percent over the previous June. In the "all other" category, when the major subgroups reached their respective peaks in early 1951 nearly all had surpassed their earlier postwar peaks by substantial margins. The fuel and lighting materials group, with only a fractional increase, was the chief exception.

After June, 1950, advancing prices in the foods, apparel, furnishings, and miscellaneous categories carried the consumers' price index upward rapidly. By February, 1951, it had risen nearly 8 percent.

Chart 1. WHOLESALE PRICE MOVEMENTS



Source: Bureau of Labor Statistics. (1926 = 100)

Downward Adjustments During 1951

When hostilities settled down to a war of attrition and it began to look as if there would be no spread to other areas, prices also settled. By November, 1951, all groups in the sensitive commodity index had dropped back, so that the index stood at 327.6, some 16 percent below the high-water mark, but still considerably above the pre-Korea level. Even the Iranian crisis in the summer of 1951, with its tinderbox qualities, failed to halt the decline. After the drop, import and industrial prices were about 7 percent over previous postwar highs; other groups were still well below those peaks.

In the 1951 decline in the comprehensive index, farm products and industrial items declined 7 percent and 3 percent, respectively, but foods remained level or rose slightly. Yet, as Chart 1 shows, if allowance is made for the lag in food prices, they are not far out of line with farm prices.

Prices of most of the major subgroups of "other products" had dropped from their early 1951 peaks. Almost without exception, however, prices remained above the previous postwar peaks, in some cases by 10 to 15 percent (chemicals, metals, and housefurnishings).

There have been some notable divergences during 1951. Textile and leather prices fell off considerably. Cotton goods were the chief cause of the slack in textiles; in October, such prices had dropped nearly 20 percent from the early 1951 high and were nearly 12 percent below the previous postwar peak. In contrast, iron and steel prices have not only maintained the early 1951 level but have risen slightly during the year.

The reason for the changes in both cases lies in the nature of recent consumer and defense demands. After the early months of 1951, consumers were saving more at the expense of purchases, so that soft lines like apparel lost ground pricewise. On the other hand, the requirements of defense mobilization held basic metal prices at their high level.

The extreme imbalance in the supply-demand position of the basic metals is shown by Defense Production Administration data. Supplies of alloy steel, brass mill products, copper wire products, and aluminum are sufficient to meet only about half of requirements.

In contrast to the wholesale indexes, the consumers' price index was virtually steady from February to September. Then there was a sizable increase caused chiefly by advances in the prices of foods and miscellaneous goods and services, as shown by Chart 2. By November, the index had reached 188.6 (1935-39 = 100), nearly 11 percent over the pre-Korea level.

Probably the most surprising development in consumer prices has been the maintenance of or increase in apparel prices. Despite the swollen inventories of apparel last summer, clothing prices held steady at the wholesale level between March and October, and at the retail level

from March till September. The chief reason for such an apparently contrary development was the clothing industry's acceptance of volume cutbacks rather than lower prices.

In this connection, it is worth noting that there is an important difference between the basic situation and the immediate prospect. Even in such soft goods as textiles and apparel, the basic situation is strong enough so that the industry did not have to make sacrifices to work off inventories; in fact, cost increases were added last summer in the face of declining sales.

Substantial Increases Not Now in Prospect

A factor whose importance is difficult to appraise was introduced into the price situation last December, when the Office of Price Stabilization was established. The rapid price rise at that time seemed to make controls necessary. In more recent months, it has become evident that the present rate of defense mobilization is not upsetting the civilian economy much, and many prices have been below OPS ceilings. Under these circumstances, OPS has been an unknown quantity, with many controls set up, but only a few items controlled. So far, automobiles have been the chief consumers' durable controlled. Other durables and nondurables have continued in good supply, and demand has been so slack that prices have weakened, as in the case of television sets and tires.

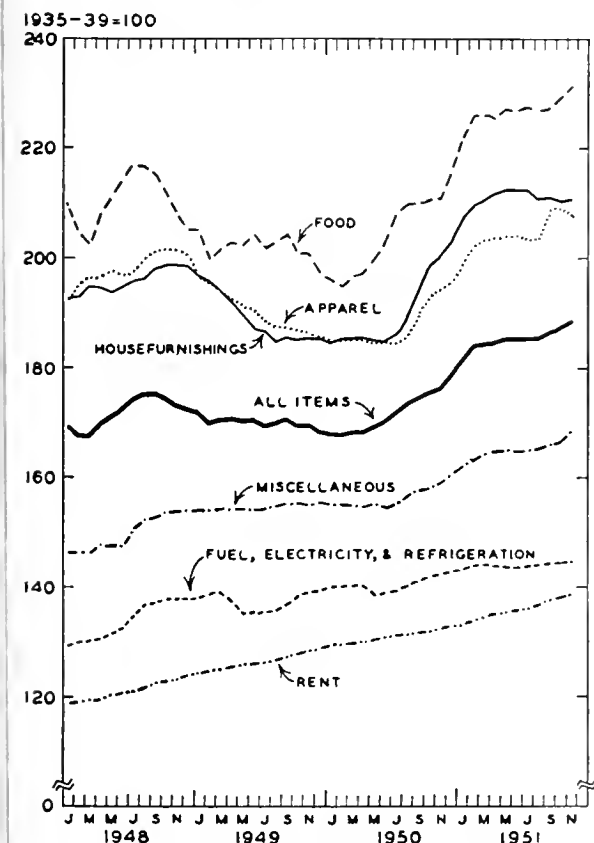
Since late November, there has been much discussion in Washington concerning the proper rate of mobilization. Inasmuch as the present rate and also a large-scale expansion in basic industrial capacity were supported during 1951 without any substantial dislocation, a bigger defense load is advocated. Capacity increases so far have been impressive; and every time capacity is increased, better support for civilian and defense needs is provided.

On the other side of the picture, although consumers have had their fling at scare-buying and are now almost apathetic, this attitude could quickly reverse, putting new pressure on prices. Many declines in prices have also resulted from inventory readjustments which are temporary in nature. When it becomes necessary to rebuild stocks again, as it surely will, another temporary upward surge in prices is likely. Just as developments failed to support the late-1950 price rise, basic conditions of the last few months fail to give reason for the sizable drops which occurred during 1951.

For the future, areas of continued inflationary pressure can be expected. Metals and chemicals will remain in strong demand and short supply, so that prices for these items will stay high and probably go higher than at present. On the other hand, prices of consumer nondurables are currently showing signs of slackness and can be expected to go along on a fairly level plane, perhaps with a slight upward trend.

The long-term position of prices depends greatly on the level of the military program. The present prospect is that the rate of mobilization in 1952 will not be greatly changed from that of 1951. If the rate is stepped up, controls may be tightened to hold prices until the situation again eases. Under the circumstances, large price increases cannot be regarded as at all certain. It is likely that there will be rapid changes, but any such movements are likely to die quickly. On balance, the various influences that can be foreseen will about maintain present levels or carry them a little higher by the end of 1952 in irregular fluctuations. Thereafter, international developments will dominate the picture.

Chart 2. TRENDS IN CONSUMERS' PRICES



Source: Bureau of Labor Statistics.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity showed mixed trends during November. Coal production, manufacturing employment, department store sales, and construction contracts awarded rose substantially over October. Other indexes, including petroleum and electric power production, declined, as did bank debits and farm prices. The rate of steel operations in the Chicago district increased substantially over the previous month, from 102.4 percent of capacity to 105.4 percent, although actual output was off slightly because of the shorter month. For the first eleven months of 1951, Chicago area steel producers operated at 104.0 percent of capacity and turned out 20.5 million net tons, more than one-fifth of the national total.

Labor Area Classifications

According to the latest classifications, most of the listed areas in Illinois have either a balanced labor supply or a slight excess of the number of laborers over available jobs. As shown by the accompanying chart, the Rock Island-Moline region continues to be an area of tight labor supply, with "current or prospective" shortages of manpower. The nonelectrical machinery, primary metals, electrical machinery, and fabricated metal industries are all pinched for labor in the area. Ordnance labor needs are also high.

MAJOR LABOR AREAS



Source: Illinois Department of Labor.

On the other hand, there is a "current or prospective" substantial labor surplus in the six-county Crab Orchard area. Lessened mining and construction activity and the end of the seasonal fruit harvest combined to cut employment in the region considerably during the two months ended at mid-November. About three-fifths of the workers unemployed at that time were unskilled. It is expected, however, that expanding activity in mining, electrical and nonelectrical machinery, fabricated metals, and apparel industries will cut the number of unemployed. In addition, there is a possibility that a new heavy machine plant will be located in the area and will provide jobs for more workers.

Construction Contract Awards Expand

Construction contracts awarded in the State in November totaled \$83.9 million, 11.3 percent over the previous month. Increases of 12.6 percent in nonresidential building contracts and 64.4 percent in public works and utilities awards much more than offset the 7.5 percent decline in the value of residential contract awards. Large expansion programs appear to have postponed the onset of seasonal declines. Moreover, Illinois firms were evidently having little difficulty in obtaining building materials under the government's control program—commercial construction awards rose 58.9 percent over October, and manufacturing building contracts, 104.4 percent.

In comparison with November of 1950, total nonresidential construction contracts had risen by 48.0 percent, whereas residential building, caught in the squeeze of restrictions, was off by 16.6 percent. Total value of construction contracts awarded had advanced 22.7 percent. The 11-month total showed similar, but much smaller, changes. Nonresidential contracts were up by 6.8 percent, but residential were off by 6.2 percent, so that total awards, influenced mainly by the larger nonresidential figure, rose by 3.7 percent.

Mixed Price Movements

The consumers' price index for Chicago continued to rise during the month ended November 15. At 194.3 (1935-39 = 100), the index was 0.4 percent over the previous month and 7.6 percent above the year-ago level. The October 15-November 15, 1951, change reflected rises of 0.7 percent each in prices of foods and miscellaneous goods and services.

Agricultural prices dropped 2.0 percent during the month to 302 (1910-14 = 100), as a result of a 4.2 percent decline in livestock and products. Prices of crops rose 3.1 percent over the month before, with fruits and oil-bearing crops up sharply, but failed to offset the livestock decreases. As a result of the latter decline, the parity ratio dropped from 109 to 106.

More Gas for Illinois

A larger supply of natural gas became available to Illinois users early in December when a new 30-inch pipeline was put into service by the Texas-Illinois Natural Gas Pipeline Company. The 1,417-mile pipeline to Joliet cost an estimated \$135 million and took 15 months to complete. It is expected that the new line will have a daily capacity of 374 million cubic feet, raising the total available gas in the Chicago area to 880 million cubic feet daily.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

November, 1951

	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS	\$17,031	892,481 ^a	\$524,020 ^a		\$11,046 ^a	\$14,090 ^a
Percentage Change from..... {Oct., 1951.....	-29.0	+5.4	+7.1	+11.7	-4.7	+8.2
..... {Nov., 1950.....	-26.7	+4.7	+5.5	+2.3	+9.5	+7.8
NORTHERN ILLINOIS						
Chicago	\$13,065	693,221	\$384,966		\$10,029	\$12,508
Percentage Change from..... {Oct., 1951.....	-26.6	+5.6	+8.1	+13.5	-3.8	+9.4
..... {Nov., 1950.....	-21.9	+2.6	+5.0	+2.0	+9.6	+7.5
Aurora	n.a.	n.a.	\$7,244		\$ 44	\$ 95
Percentage Change from..... {Oct., 1951.....			+3.6	+11.2	-7.3	+12.2
..... {Nov., 1950.....			+6.4	+0.1	+9.7	+3.8
Elgin	\$ 557	n.a.	\$5,257		\$ 30	\$ 97
Percentage Change from..... {Oct., 1951.....	+28.3		+3.4	+11.1	+3.8	-4.2
..... {Nov., 1950.....	+34.2		+2.7	+7.6	+8.9	-4.3
Joliet	\$ 158	n.a.	\$10,287		\$ 53	\$ 83
Percentage Change from..... {Oct., 1951.....	-62.4		+11.2	-0.5	-2.4	+4.6
..... {Nov., 1950.....	-12.2		+13.2	-1.1	+17.3	+9.7
Kankakee	\$ 85	n.a.	\$4,734		n.a.	\$ 35
Percentage Change from..... {Oct., 1951.....	-35.1		+3.4	+1.6		-4.9
..... {Nov., 1950.....	-78.1		+11.0	+8.5		+8.5
Rock Island-Moline	\$ 763	18,049	\$10,196		\$ 38 ^b	\$ 157
Percentage Change from..... {Oct., 1951.....	-32.6	+3.9	-0.9	n.a.	+1.7	-0.9
..... {Nov., 1950.....	-40.7	+13.4	+15.2		+29.1	+35.5
Rockford	\$ 477	26,197	\$15,606		\$ 126	\$ 170
Percentage Change from..... {Oct., 1951.....	-43.7	+3.9	+3.0	+12.0	-4.0	+6.2
..... {Nov., 1950.....	-62.1	+10.0	+8.0	+2.2	+12.0	+9.5
CENTRAL ILLINOIS						
Bloomington	\$ 22	5,565	\$5,403		\$ 48	\$ 100
Percentage Change from..... {Oct., 1951.....	-88.3	+2.0	+7.0	n.a.	-14.8	+1.4
..... {Nov., 1950.....	-88.0	+12.4	+6.4		+0.4	+26.8
Champaign-Urbana	\$ 193	8,153	\$7,387		\$ 52	\$ 81
Percentage Change from..... {Oct., 1951.....	+9.6	+4.8	+2.9	n.a.	-18.2	+6.0
..... {Nov., 1950.....	-13.1	+10.9	+5.7		+10.6	-4.4
Danville	\$ 234	8,111	\$6,082		\$ 45	\$ 53
Percentage Change from..... {Oct., 1951.....	+9.3	+13.0	+6.7	0.0	+4.5	-10.4
..... {Nov., 1950.....	-11.0	+15.8	+11.6	+6.0	+11.5	+13.3
Decatur	\$ 156	22,943	\$9,359		\$ 90	\$ 92
Percentage Change from..... {Oct., 1951.....	-76.3	+13.8	+3.5	-1.0	-33.6	-9.3
..... {Nov., 1950.....	-36.1	+30.6	+6.3	-1.1	+3.0	+15.7
Galesburg	\$ 461	5,843	\$4,097		n.a.	\$ 32
Percentage Change from..... {Oct., 1951.....	+370.4	+5.4	+3.9	n.a.		-1.9
..... {Nov., 1950.....	+840.8	+20.5	+7.2			+18.5
Peoria	\$ 283	46,344 ^c	\$17,034		\$ 203	\$ 207
Percentage Change from..... {Oct., 1951.....	+45.1	+2.5	+10.1	+12.1	-12.7	+7.4
..... {Nov., 1950.....	-64.0	+5.7	+0.2	+3.3	+3.8	+4.9
Quincy	\$ 74	6,817	\$4,923		\$ 35	\$ 74
Percentage Change from..... {Oct., 1951.....	-73.3	+4.0	+4.6	n.a.	-11.6	-2.4
..... {Nov., 1950.....	-84.6	+2.9	+3.1		+10.3	+23.7
Springfield	\$ 338	24,807 ^c	\$13,277		\$ 86	\$ 184
Percentage Change from..... {Oct., 1951.....	-7.4	+6.9	-0.6	-28.6	-8.2	-5.6
..... {Nov., 1950.....	-35.9	+24.5	+6.0	+4.0	+3.6	+6.1
SOUTHERN ILLINOIS						
East St. Louis	\$ 137	11,666	\$9,163		\$ 138	\$ 54
Percentage Change from..... {Oct., 1951.....	-14.9	+1.8	+0.2	n.a.	-17.0	+10.4
..... {Nov., 1950.....	+57.5	+15.1	+5.0		+6.9	+9.4
Alton	n.a.	9,955	\$4,771		\$ 29	\$ 28
Percentage Change from..... {Oct., 1951.....		-4.9	+6.3	n.a.	-3.0	+3.2
..... {Nov., 1950.....		-5.0	+8.3		+9.0	-3.9
Belleville	\$ 28	4,807	\$4,234		n.a.	\$ 38
Percentage Change from..... {Oct., 1951.....	-96.8	+7.2	+7.1	n.a.		-20.9
..... {Nov., 1950.....	-80.7	+10.8	+2.8			+16.7

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for October, 1951, the most recent available. Comparisons relate to September, 1951. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

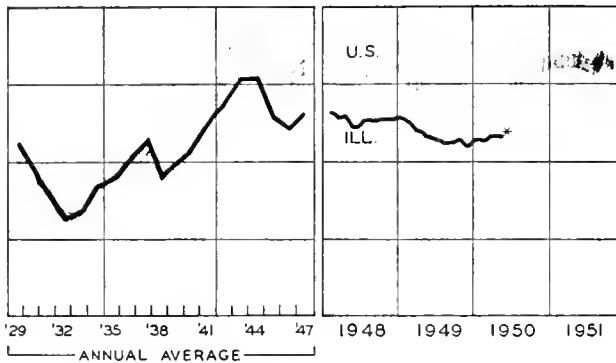
^c Includes immediately surrounding territory.

n.a. Not available.

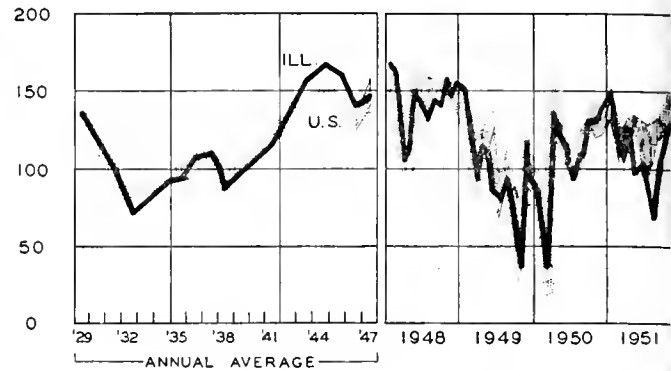
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

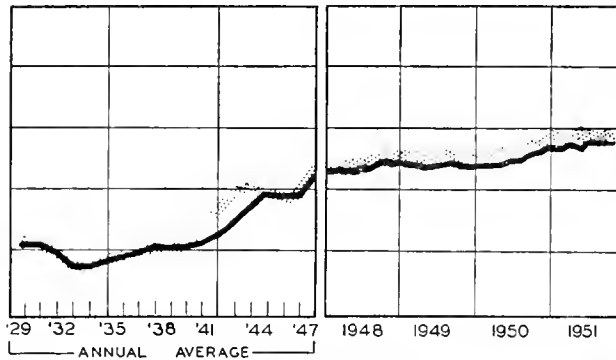
EMPLOYMENT- MANUFACTURING



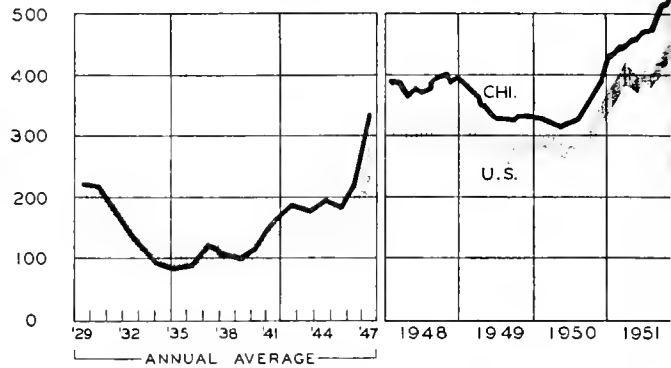
COAL PRODUCTION



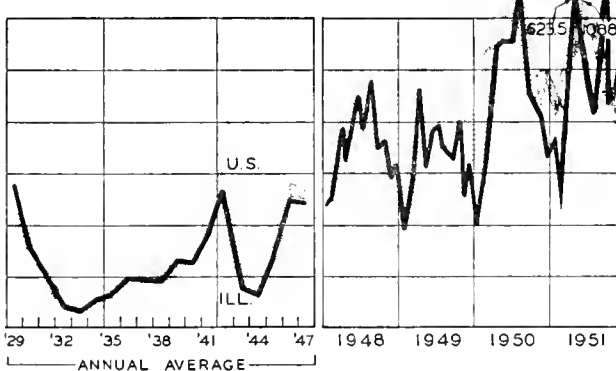
AVG. WKLY. EARNINGS - MANUFACTURING



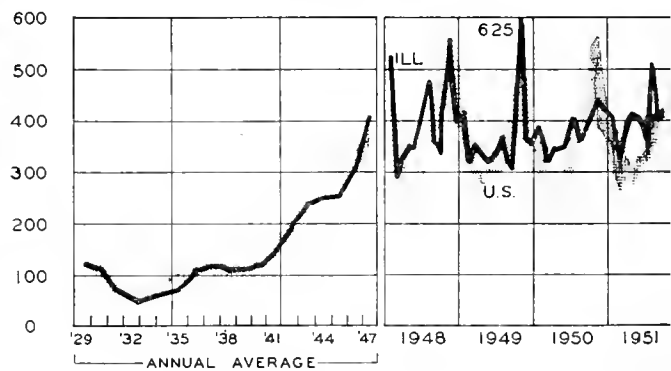
BUSINESS LOANS



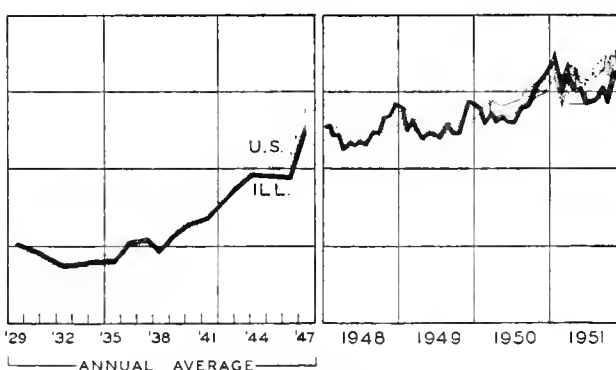
CONSTRUCTION CONTRACTS AWARDED



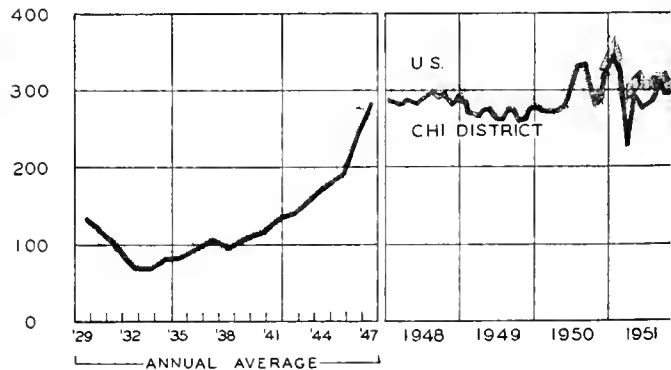
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



* Illinois figures being revised.

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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FEBRUARY, 1952

NUMBER 2

HIGHLIGHTS OF BUSINESS IN JANUARY

The high over-all stability of business activity was maintained in January. The final estimate of the Federal Reserve Index of industrial production is not expected to differ much from the December figure of 218 percent of the 1935-39 average. Durable-goods output rose further in the last two months but offsetting declines occurred in minerals and in nondurable-goods industries. Automobile production dropped sharply, partly because of model change-overs.

A considerable cushion for any possible decline in business activity lies in the size of the new Federal budget for fiscal 1953. If Congress adopts President Truman's recommendations, the Federal government will be spending a peacetime high of \$85.4 billion in the next fiscal year. At the same time, the government expects to take in only \$71.0 billion, leaving a potential deficit of some \$14.4 billion. (See special article on p. 8.)

Price Trends Mixed

Latest reports show a continued decline in prices at the wholesale level and a continued rise in prices at the consumer level. At the end of January, the Bureau of Labor Statistics comprehensive wholesale price index was down 0.6 percent from its level at the beginning of the month, to 176.3 percent of its 1926 average; this was 3.3 percent below the wholesale price level in January of last year.

Food prices also figured prominently in a rise in the Bureau of Labor Statistics' consumers' price index for the month ended December 15 to a new high at 189.1 percent of its 1935-39 average, 11.1 percent above the pre-Korean level. Both the total index and food prices rose 0.3 percent in the month, with prices of fresh fruits and vegetables up nearly 9 percent in the same period. (The reports of food prices declining at the wholesale and rising at the consumer level are not so conflicting as they may seem, because it usually takes several weeks for price changes at wholesale to be felt in retail markets.) Since last September, fresh fruit and vegetable prices at retail have risen 25 percent.

Construction Remains High

The first month of 1952 witnessed the expenditure of over \$2.1 billion on new construction activity, slightly exceeding outlays in January of last year. Public and private industrial construction continued to form the

mainstay of the boom, up 31 and 39 percent, respectively, as compared with last January. Private home building, on the other hand, was down 8 percent.

New orders issued by the National Production Authority and the Housing and Home Finance Agency are designed to reduce the amount of materials used in private home building rather than to further restrict the number constructed. Reduced allotments of carbon steel and copper building materials to builders, limitation of one-family homes to one and one-half bathrooms, and curtailed construction of summer cottages and other "seasonal or temporary" units are some of the provisions. At the same time, defense officials hope to limit the number of new homes built this year to 800,000.

Business Inventories Up

The amount of goods on the shelves of retailers, wholesalers, and manufacturers was valued at \$69.7 billion at the end of 1951, an increase of almost \$10 billion over the 1950 year-end level. Manufacturers accounted for the bulk (\$42 billion) of inventory holdings as well as for most (\$8.7 billion) of the increase.

The rapid expansion of manufacturers' inventories is due largely to the accumulation of parts and raw materials on the part of manufacturers of machine tools, armaments, transportation equipment, and machinery to meet the growing demands of the military program. Unbalanced holdings created by shortages of particular goods, together with changes in contract specifications, have also served to raise manufacturers' stocks.

Personal Income in 1951

The income received by the American people in 1951 came to \$251 billion, 12 percent more than in 1950. The higher level of personal income is mainly the result of the rapid increases in the first six months of 1951.

Wage and salary receipts registered the sharpest gain in the year, up 16 percent to \$166 billion. Most other forms of income also did well, with rent and income from unincorporated business up 11 percent, and interest payments on bonds and mortgages up 5 percent. Dividend receipts from stocks and other equities, however, rose only slightly, and transfer payments of government (unemployment compensation, GI benefits, etc.) dropped 17 percent, as veterans' payments fell sharply.

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Psychopathology of the Postwar Economy

The postwar years have favored us with sustained high-level prosperity. What seems strange, as we look back over these years, is that they conveyed in passing such an impression of large and rapid fluctuations.

Between the Berlin airlift in 1948 and the Korean outbreak in 1950, we had the letdown of 1949. This panicky, but mild, recession was unnecessary in that there was no real need to liquidate inventories at the time. Even more unnecessary were the boom-and-bust jitters of early 1947 and the recession fears of late 1951.

The intervening advances were sparked by international developments. The specific nature of these inflationary surges, however, was not based on the realities of military production but on the sharp responses of a private economy engulfed by fear of war.

Each year the tide of sentiment has risen or ebbed. In the even years it rose to flood, pounding at the barriers of control we erected; in the odd years, it receded to lows that seemed to justify the most pessimistic views. Although partly just happenstance, the alternations have been regular and severe. They call to mind the changing states of an individual with a manic-depressive psychosis, who at regular intervals swings back and forth between the extremes of enthusiastic excitement and discouraged stolidity.

Another "Depression"?

At the moment, the economy might be compared with the individual in the depressed state. In this condition we are apprehensive about business prosperity and complacent about the success of our foreign policy. It is unfortunate, because we could probably act more wisely if these attitudes were interchanged.

There are signs of the pessimistic view on every hand. Recent readjustments in various industries have led to the easing of shortages and the appearance of some surpluses. Military aircraft schedules have been "stretched out," so that the Air Force has had to turn back allocations for millions of pounds of aluminum. Rubber supplies are now more than sufficient to meet current demand, and tire producers are beginning to put their competitive, low-priced lines back into production. It is said that steel will soon be "flowing out of our

ears." Although the decline in wholesale prices has not been sufficient to turn the index of consumer prices downward, predictions of further large declines in prices and profits are commonplace. Consumers have tightened their purse strings, saving at a rate of more than 10 percent of their disposable income. Congressmen are asking for action on possible decontrol of prices. New England textile industries are asking for wage cuts in the midst of what is termed "the worst depression in 20 years." Ironically, even the valid items in this pessimistic line of thinking hold little significance for business prospects in the months ahead.

Companion to the view that we may not have enough work to keep us busy is a sort of apathetic attitude toward developments in the struggle for world leadership. Everyone continues to pay lip service to the danger of war, but the view that seems to be most generally accepted is that we are winning "the battle of production," that time is now playing into our hands. President Truman has cut back the appropriations requested by the military, and is being attacked for not cutting still more. Negotiations in Korea are making some progress, however slow. From them, surely, a bargain will come, permitting us to relax again in the lull of actual shooting.

Extending the Pattern of Behavior

Such are the consequences of excesses that carry to extremes with no good reason other than a change in state of mind. Any comparison of social processes with the clinical individual is bound to be imperfect, of course, but it is interesting to project the recent pattern of behavior into the future because of the likelihood that something of the kind will prevail in any case.

At the expense of repeating what was said here last August, it may be pointed out that no truce in Korea could be expected to give international affairs a definite turn for the better. Tensions already existing in trouble spots in various parts of the world will continue to threaten new outbreaks.

One prominent news commentator, by the way of assuring us that the chances for peace are improving, states that a firm decision has been made to keep our forces out of the fight for Indo-China. What he overlooks is that for people in this psychopathic condition, there can be no firm decisions. As the shift from the depressed to the excited state progresses, perspectives are bound to reverse; and what looks absolutely right now will look equally wrong then. When the next disturbance occurs, we shall be all the more indignant because our hopes were disappointed.

The probability of a new swing toward the extreme of excitement is at least as great in economics as in politics. The government budget is rising rapidly, even if not so rapidly as some may have hoped. Business outlays for new plant and equipment show no sign of turning down quickly. Activity in these key areas will be sufficient to keep the economy moving up in 1952.

Consumers, furthermore, are likely to revert to ways of more liberal spending. For every dollar too little they are spending now, there may well be another dollar too much spent later. Then, the justification for the swing back to the other extreme will be complete, and for a period of months the advance could be as rapid as in 1950. In such a movement, shortages will again predominate. Prices will be bid up and almost every-

(Continued on page 9)

POSTWAR ADVANCES IN AIR TRANSPORTATION

The tremendous postwar growth of air transportation was foreshadowed by prewar rates of traffic expansion and built upon the wartime development of planes and equipment. These provided advances in safety and efficiency beyond anything previously thought possible.

Today any one of the major scheduled airlines has the equipment and personnel to handle more traffic than all the lines together at the time of Pearl Harbor. Between 1945 and 1950 the number of scheduled airlines operating in the United States increased from 16 to 37, while air carrier stops jumped from 287 to 540.

A billion dollar industry last year, air transportation has four major services — carrying mail, express, freight, and passengers. About 80 percent of the domestic airlines' income is contributed by passenger revenues.

The Air Transport Association estimates that the domestic airlines' share of the first-class travel market rose from 11 percent in 1945 to 46 percent in 1950, the remainder in each case represented by Pullman passenger-miles. Nearly 25 million passengers traveled by air in 1951, 3½ times the number carried in 1945 and over 8 times the number reported for 1940. Air-coach service at reduced fares and family rates have contributed substantially to the increases. The airlines are said to have a potential of 40 million passengers by 1960.

Federal Airport Act

In order to provide for the development and improvement of the nation's airports, Congress passed the Federal Airport Act in 1947 authorizing appropriations amounting to \$520 million to be made over a period of seven years. The cumulative total of 1,105 projects completed at the close of 1950 represented 57 percent of the projects programmed under the Act, with an additional 407 airfields in various stages of completion.

Illinois does not rank high in number of projects already constructed under the Act, having only 27 airports completed or under construction as of January 1, 1951. But only California and Texas exceed the Illinois total of \$20 million authorized by the government for airport development during the next three years.

Facilities in Illinois

Illinois had the third largest number of civil aircraft in the nation in 1950, 4,909 planes, although the State ranked 12th in number of airports in operation. Since 1945 the total number of airports has increased from 113 to 176, including 111 commercial, 38 municipal, and 3 military airfields.

Chicago was responsible for most of the scheduled air transportation, with stations outside Chicago accounting for only 3 percent of the passenger traffic originating in the State and 1 percent of the air mail tonnage.

In 1945 only Chicago, Peoria, and Moline had regularly scheduled commercial service, but by the end of 1950 ten Illinois cities were scheduled airline stops.

Located at the hub of air traffic in the United

States, Chicago is served by 16 airlines and has the only airport in the State handling international traffic. Moline, Peoria, and Quincy are each served by three airlines. Bloomington and Springfield by two, and Champaign, Danville, Decatur, and Rockford by one. Following Chicago in order of number of aircraft departures, passengers carried, and air mail tonnage, are Moline, Peoria, Springfield, and Quincy.

In addition to these scheduled airports there are over 100 flight schools and airfields handling unscheduled passenger and freight service throughout the State. Illinois also has about 400 restricted landing areas, most of them located on farms, for the operation of small private aircraft and for use as emergency fields.

Increasing Use of Helicopters

Pioneer helicopter air mail service in the Los Angeles and Chicago areas has demonstrated the commercial possibilities of rotary wing aircraft. They are the only two cities in the country with this service. Carrying air mail by helicopter was started in Los Angeles in 1947, and California remains the leader in tons of air mail carried. However, the Chicago service, operating since 1949, includes a larger number of towns and reported the greatest number of departures in 1950.

All of the 36 communities in Illinois with helicopter traffic in 1950 were in the Chicago area, including surrounding suburbs, and Aurora, Elgin, and Joliet. The Chicago Helicopter Air Service has applied for an additional certificate which would permit transportation of passengers as well as mail.

Helicopters have two unique advantages. They can hover in midair and can land and take off from very limited areas, such as rooftops and parking lots. Their main disadvantages are relatively slow speeds, up to only 100 miles per hour, and high cost. Two-place helicopters have been generally priced from \$20,000, with four-place models starting at about \$125,000.

There is a need for larger helicopters, from 10- to 20-passenger models, that could be profitably purchased and operated for transportation of persons between far-out airports and the centers of the cities they serve, and for point-to-point service between communities in populous areas. Federal aviation experts say that in 10 years helicopters will dominate the commercial short-haul field up to about 200 miles.

Military use of transport helicopters on the Korean front for troop rescue work, carrying stretcher cases, and inspections is advancing their development rapidly. These advances will be reflected ultimately in large multi-engine helicopters for commercial passenger service, previously considered too costly to be experimented with by the 10-year-old helicopter industry.

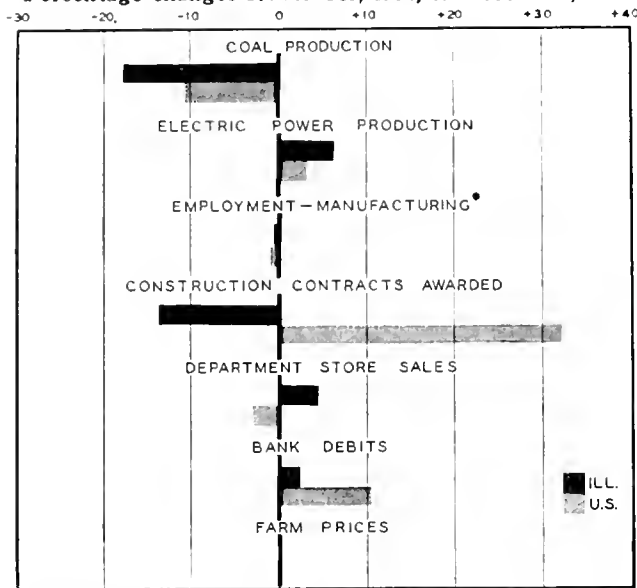
Thus the present war may bring helicopter passenger service to the nation years ahead of schedule, just as World War II greatly expanded and improved transportation in fixed-wing aircraft.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes November, 1951, to December, 1951



*October, 1951, to November, 1951

ILLINOIS BUSINESS INDEXES

Item	December 1951 (1935-39 = 100)	Percentage Change from	
		Nov. 1951	Dec. 1950
Electric power ¹	340.3	+ 6.7	+ 0.4
Coal production ²	110.9	-17.6	-20.7
Employment—manufacturing ³ ..	n.a.	-0.1 ^a	+ 0.9 ^b
Payrolls—manufacturing ³	n.a.	...	...
Dept. store sales in Chicago ⁴	101.6 ^c	- 4.0	- 3.0
Consumer prices in Chicago ⁵	194.2 ^d	- 0.1	+ 5.9
Construction contracts awarded ⁶	434.9	-13.9	+35.2
Bank debits ⁷	367.5	+ 3.7	- 1.0
Farm prices ⁸	271.0	0.0	+ 6.3
Life insurance sales (ordinary) ⁹ ..	220.9	+ 1.5	+ 7.7
Petroleum production ¹⁰	240.6	+10.2	+ 7.4

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a October to November, 1951. ^b November, 1950, to November, 1951. ^c Seasonally adjusted, 1947-49 = 100. ^d New series. Old series index for December was 195.8. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	December 1951	Percentage Change from	
		Nov. 1951	Dec. 1950
Personal income ¹	257.0	+ 0.2	+ 5.2
Manufacturing ¹	256.8 ^a	- 4.0	+ 1.9
Sales.....	41.9 ^{a, b}	+ 0.5	+25.8
Inventories.....	9.7	+11.6	-19.4
New construction activity ¹	8.5	- 8.4	- 0.8
Private residential.....	8.4	-12.7	+36.6
Private nonresidential.....	17.2	+ 3.6	+34.8
Total public.....	9.6	- 2.1	- 7.6
Foreign trade ¹	7.6	+11.9	+220.5
Merchandise exports.....	20.6 ^b	+ 3.1	+ 2.6
Merchandise imports.....	13.5 ^b	+ 1.7	+ 0.2
Excess of exports.....	21.6 ^b	+ 3.5	+21.0
Consumer credit outstanding ²	36.9	-13.8	+11.4
Total credit.....	218 ^a	- 0.5	0.0
Installment credit.....	280 ^a	+ 1.1	+ 4.5
Business loans ²	185 ^a	- 1.6	- 6.1
Cash farm income ³	164 ^a	- 3.5	+ 4.4
Indexes (1935-39 = 100)			
Industrial production ²	162 ^a	- 0.1	- 1.3
Combined index.....	110	+ 1.7	- 0.5
Durable manufactures.....	273	+ 0.6	+ 6.0
Nondurable manufactures.....	300	+ 2.4	+ 5.4
Minerals.....	522	+32.5	+ 5.6
Manufacturing employment ²	109 ^{a, c}	- 2.7	- 0.9
Production workers.....	189 ^d	+ 0.3	+ 5.8
Factory worker earnings ⁴	221	- 0.3	+ 1.4
Average hours worked.....	255	- 0.8	+ 3.3
Average hourly earnings.....	237	- 0.8	+ 4.6
Average weekly earnings.....	206	0.0	+ 0.1
Construction contracts awarded ⁵	285	+ 1.3	+ 6.6
Department store sales ²	227	0.0	+ 7.2
Consumers' price index ¹	107 ^e	+ 0.9	- 0.9
Wholesale prices ⁴			
All commodities.....			
Farm products.....			
Foods.....			
Other.....			
Farm prices ³			
Received by farmers.....			
Paid by farmers.....			
Parity ratio.....			

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ^a Seasonally adjusted. ^b As of end of month. ^c 1947-49 = 100. ^d New series 189.1; old series 190.0. ^e Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1952				1951	
	Jan. 26	Jan. 19	Jan. 12	Jan. 5	Dec. 29	Jan. 27
Production:						
Bituminous coal (daily avg.).....	1,870	1,888	1,960	1,839	1,571	1,902
Electric power by utilities.....	7,616	7,540	7,666	7,149	6,922	6,970
Motor vehicles (Wards).....	88.5	91.9	85.6	48.5	35.2	158.3
Petroleum (daily avg.).....	6,099	6,101	6,084	6,094	6,112	5,987
Steel.....	231.3	229.6	228.7	228.5	227.1	225.9
Freight carloadings.....	728	748	743	613	502	784
Department store sales.....	240	259	265	225	265	278
Commodity prices, wholesale:						
All commodities.....	175.9	176.5	177.2	177.2	177.3	181.4
Other than farm products and foods.....	165.0	165.2	165.3	165.4	165.5	171.1
28 commodities.....	323.1	321.5	324.6	327.5	328.7	386.1
Finance:						
Business loans.....	21,286	21,441	21,267	21,419	21,592	18,018
Failures, industrial and commercial.....	142	158	164	126	163	193

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production About Steady

Industrial activity continued steady during December and early January. Preliminary Federal Reserve Board data show that the December index of industrial production was 218 percent of the prewar (1935-39) average, and indicate approximately the same level for early January. Since the beginning of 1951 the index has usually moved within fairly narrow limits at about 220.

Despite spot shortages of scrap which shut down a few furnaces, steel production continued at a peak level during January, averaging 2,055,000 tons weekly. For the month, operations were scheduled at 99 percent of the new rated capacity of 2,077,040 net tons a week. At the old rate, January operations remained close to 103 percent of capacity. Since mid-1950, when war broke out in Korea, the industry has raised annual steelmaking capacity by 8 million tons, reaching 108,587,670 net tons at the end of 1951.

Even though new metal allocations became available with the start of the quarter, January automotive production remained at a low level. Model change-overs explained part of the cut in production. The highest weekly turnout, about 98,000 vehicles, marked another drop in the level of automotive production from previous months' average weekly output. So far weekly output has been well below the rate needed to reach the first-quarter quota of somewhat more than a million cars and trucks.

Basic Industries Expand

A large portion of recent capital expenditures has gone into enlarging the productive capacity of basic industries, continuing the trend prevailing for more than a decade. As shown in the accompanying chart, from 1939 to 1950 steel production had nearly doubled; produc-

tion of primary aluminum was nearly 4 times greater in 1950 than in 1939; electric power generating capacity was up about 80 percent, and petroleum refining capacity about 50 percent. Since Korean hostilities began, private domestic investment for producers' goods and nonresidential construction has averaged about \$37 billion a year, \$5 billion above the 1947-50 average rate.

During 1951, steel capacity was increased by 4 percent and electricity generating capacity was raised by 10 percent. Aluminum producing capacity was also expanded sharply. Further sizable advances in these three industries as well as in petroleum are projected for 1952. The large additions to electric power production and aluminum production are especially needed: electric power for the atomic energy program and aluminum production, and aluminum for the expansion of aircraft production. Supplies of steel are apparently moving more nearly into balance with demand, and petroleum supplies have so far been adequate.

Labor Difficulties

Two matters occupied most of the labor spotlight during January. The threatened steel strike was postponed early in the month by the United Steel Workers' decision to work at least until mid-February while the Wage Stabilization Board tried to reach a solution acceptable both to labor and to management. At the end of the month, no settlement was in prospect.

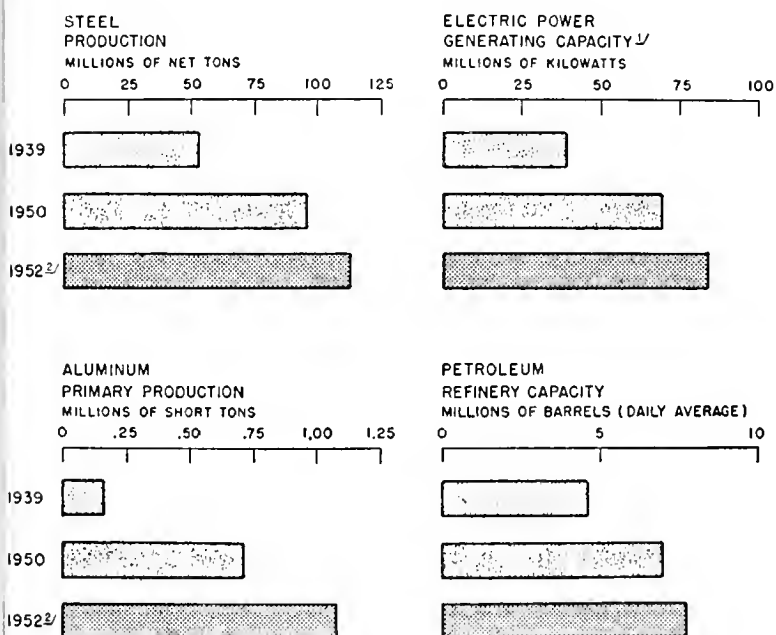
The other development which has caused considerable concern is the increased unemployment in the Detroit area as automobile manufacturers cut back production because of limited supplies of metals. Reduced output schedules occasioned by shortages of certain metals, especially copper, had resulted in the unemployment of an estimated 135,000 automotive workers by the latter part of January. Prospects are for substantial additions to the unemployed group during the remainder of the first half of 1952. Other areas have also been affected, among them Flint and Grand Rapids, Michigan, and South Bend, Indiana. Some attempt is to be made to channel defense orders to producers in these areas, but it is unlikely that any immediate reductions in unemployment will be effected by these means.

Fewer man-days were lost during 1951 because of strikes than in any other post-war year. With the yearly total at 22.6 million man-days idle, the loss was one-third less than that in the previous low year of 1948. About 2,130,000 workers were involved in last year's 4,650 strikes, most of which were small and brief. Only 21 strikes involved more than 10,000 workers and only 4 of these lasted a month or more.

Farm Outlook About the Same

Prospects for farmers in 1952 indicate that net farm income will be about the same as in 1951, according to the annual farm outlook bulletin of the Seventh Federal Reserve Bank. Gross farm income and cash receipts from marketing are both expected to rise about 5 percent on the basis of a

GROWTH IN BASIC CAPACITY AND PRODUCTION



¹ EXCLUDES INDUSTRIAL.
² PROJECTIONS BY DEFENSE PRODUCTION ADMINISTRATION.

Sources: (Except as noted) American Iron and Steel Institute; Federal Power Commission; Department of the Interior.

larger volume of crops and livestock marketed. Net income, however, is expected to rise only slightly because of rising farm costs.

Farm production goals have been raised substantially over 1951 to take care of anticipated increases in both the domestic and the export markets. A rise in domestic consumption of both grains and livestock has been supported by population gains and defense demands, whereas foreign demand for American farm products has, in the main, been limited only by the supply of dollars. Increased production of crops will depend largely on more intensive cultivation of present cropland, since additions to cultivated land are likely to be slight (see page 7).

Foreign Aid Repayments Start

Repayments of foreign indebtedness to the United States government incurred during or since World War II began in 1951 with payments from France and the United Kingdom. Approximately \$500 million was repaid in 1951; payments to be made in 1952 are scheduled to be slightly larger.

Even though \$2.3 billion has been repaid by foreign countries during the postwar period, total indebtedness rose from \$0.8 billion on June 30, 1945, to \$10.1 billion on June 30, 1951. Beginning this year, repayments of principal will about balance loans already authorized, unless new credits are advanced.

Projected repayments through the year 2000 total \$13.9 billion. Installments due from the United Kingdom account for 54 percent of that total and those due from France for another 20 percent. Interest, which currently makes up 40 to 45 percent of total payments, will have dropped to about 20 percent of the total by 1985.

As shown in the accompanying chart, the United Kingdom owes 28 percent of total payments due in 1952, and France owes nearly 22 percent. For the next 20 years sums to be repaid by France and the United Kingdom will remain fairly stable in amount. Repayments by the rest of the Marshall Plan countries will decline fairly steadily and those from the rest of the world will be cut substantially. On the basis of debts now outstanding, the United Kingdom will be the only country still repaying postwar borrowings after 1984.

Sales Decline

On a seasonally adjusted basis, sales at both the manufacturing and the retail level decreased during December from the November totals. Manufacturers'

sales were off 4 percent to \$21.4 billion, chiefly as a result of a 6 percent drop in sales of durable goods. Sales at retail were down 2 percent to \$12.2 billion. In this case, also, lower sales of durables were the chief factor.

Total manufacturers' sales for 1951 amounted to \$265 billion, an advance of 16 percent over 1950. Price increases accounted for about three-fourths of the increase, greater volume for the remaining one-fourth. Durables sales rose 18 percent over the previous year to \$125 billion; sales of nondurables, at \$140 billion, were up by 14 percent.

Inventories at the end of the year were valued at \$41.9 billion, \$8.6 billion higher than a year earlier; about 90 percent of the increase was attributed to larger physical stocks. More than two-thirds of the rise in book value appeared in the value of stocks held by durable-goods producers. Unfilled orders at the end of December of \$62.2 billion were nearly three times the level of December sales; most of the backlog appeared on the order books of durables manufacturers, whose unfilled orders were more than five times their sales.

Retail sales during 1951 totaled \$151 billion, 5 percent higher than the 1950 total. The increase was more than accounted for by price advances, however.

Business Loans Drop

Bank loans to commercial, agricultural, and industrial enterprises fell by \$300 million to \$21.3 billion during the four-week period ended January 23. Declines up to 5 percent were reported in all but two of the 12 Federal Reserve districts (Cleveland and Dallas), but most of the changes, up or down, were 3 percent or less.

Consumer credit showed its usual seasonal advance during December, rising 3 percent to a new high of \$20.6 billion at the end of the month. The December increase raised the total to a point \$513 million over the level of December 31, 1950. Increases of \$227 in installment credit and \$397 million in charge accounts were only partially offset by cuts in other types of credit. Installment credit totaled \$13.5 billion, only \$29 million higher than at the end of 1950. In 1949 and 1950, installment credit rose \$2.3 billion and \$2.6 billion, respectively.

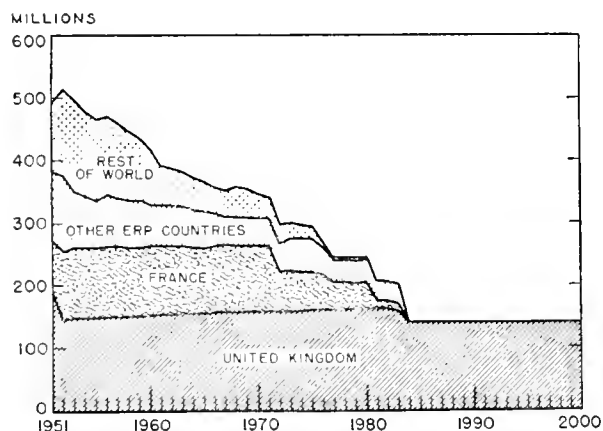
Increase in National Income Slowed

The upward movement of national income slowed somewhat during the third quarter of 1951. Income of \$277.9 billion at an annual rate was up \$3.6 billion from the previous quarter. This increase is less than the \$4.9 billion rise in the second quarter last year and the quarterly increases of \$10 billion or \$15 billion during most of the previous year.

Corporate profits before taxes were cut from \$45.4 billion for the second quarter of 1951 to \$39.8 billion for the third quarter, on a seasonally unadjusted basis. Much of the decline appeared in manufacturing industries, where moderate declines were common. Mining and construction were the chief exceptions to the general downward trend. Profits for most industries connected with defense were well above the average for all manufacturing; large increases occurred in iron and steel, nonferrous metals, machinery other than electrical, petroleum, and rubber.

Profits after taxes totaled \$16.1 billion (seasonally adjusted at annual rates), the lowest level in five years. This compares with corporate profits after taxes of \$20.7 billion and \$18.4 billion, in the first and second quarters of 1951, respectively.

FOREIGN DEBT REPAYMENT



Source: Office of Business Economics, U. S. Dept. of Commerce.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Concrete Sealer

"Concrete Glaze," developed by the Rex Home Supply Company (142 South Highland Avenue, Ossining, N.Y.), has been described as a fast-drying clear varnish for use on concrete floors and other concrete surfaces where hand trucks, heavy drums, or material handling units create a dust problem due to their abrading action. Said to seal the concrete pores with a tough resinous coating which is not affected by any residual alkali in concrete, the product resists acids, alkalis, grease, oil, water, and steam. It can be used on both exterior and interior surfaces.

Business Statistics

Statistics from the *Survey of Current Business*, published by the United States Department of Commerce, are presented in revised form in alternate years to provide a consistent record of the past 15 years, with monthly detail shown for the most recent three years. *Business Statistics, 1951 Edition* provides a ready reference to the kinds of statistics required in business planning, with data on production, shipments, orders, inventories, plant and equipment expenditures, construction, employment, commodity markets, and many other classifications. The new handbook provides monthly figures for the period from January, 1947, through December, 1950, and annual averages of monthly figures from 1935. In addition there is a section of explanatory notes to help the user interpret the data accurately and to indicate in each case the source of the material. Copies are available from the Chicago and Milwaukee offices of the Department of Commerce at \$1.50 per copy.

Radioactivity Measures Tire Fabric

The General Tire and Rubber Company has installed a Beta ray gauge to measure the thickness of rubberized fabrics used in tire manufacturing. Radioactive measurement, previously used in the steel, aluminum, and textile industries, makes possible the most exact and continuous measurement ever used in tire production. The device utilizes as a source of radioactivity two tiny grains of Strontium 90, a by-product of the atomic pile at Oak Ridge, Tennessee. The material being gauged passes between a small stainless steel capsule containing the radioactive material and a radiation detector. The lighter the weight of the fabric, the greater the amount of radiation that passes through. Variations are noted and recorded and their interpretation enables operators to eliminate thick and thin spots in the fabric, the two chief sources of tire failures.

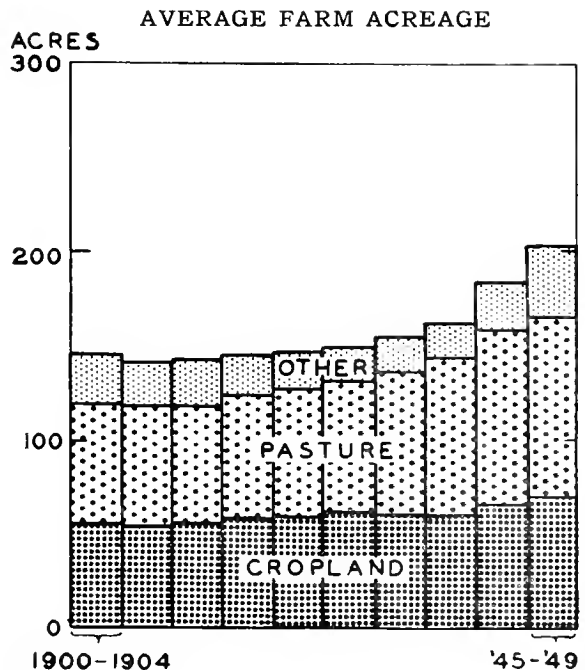
Derusting Process

The Enthone Company of New Haven, Connecticut, has announced the development of a new method of derusting steel which eliminates the use of sulphuric acid, now in critical supply because of the shortage of sulphur. Using an alkaline solution, steel is rapidly cleaned, derusted, and, if necessary, electroplated, in a single operation. The process is expected to find use both in industry and in the Armed Forces for the re-

moval of rust from steel weapons and equipment. With the use of a portable generator, derusting could take place in any location that might be required.

Fewer But Larger Farms

An article in the November issue of the *Agricultural Situation*, published by the Department of Agriculture, reveals that since 1900 the number of farms in the United States has declined about 6 percent, while the average acreage per farm has risen 39 percent, from 146 to 203 acres. There has been a fairly steady increase in farm size since 1925 when the shift to mechanization began. At the same time there has been a decline in the number of small tenant- and share-cropper-operated farms, as well as a change in the definition of a farm which tended to eliminate from the total number of reported farms many of the small part-time and rural residence type. As shown by the chart, the change in average acreage per farm is accounted for mainly by increases in pasture land, with land devoted to crops expanded only slightly. Additional acreage has been brought into farms since 1935 by clearing, drainage, and irrigation, and by purchase and leasing of both private and public grazing land in the Western states and parts of the South.



Source: U. S. Department of Agriculture.

Automatic Electric Stapler

An automatic electric stapling machine has been developed by the Staplex Company, 68-72 Jay Street, Brooklyn, New York. It is portable, weighing about 12½ pounds, and operates from any electrical outlet. Work can be fed into the machine as fast as desired since it has no fixed operating cycle. In reloading, standard size staples are slipped into the unit from the front without the removal of any parts.

THE FEDERAL BUDGET FOR FISCAL 1953

GILBERT STEINER and ROYDEN DANGERFIELD

Institute of Government and Public Affairs

The President's Budget Message is an annual "fever chart," from which it is possible to diagnose the various ailments of the body politic. This is particularly true of President Truman's message of January 21. Just as a hospitalized patient's chart is subject to differing diagnoses by different physicians, so the President's message has given rise to different interpretations by economists, Senators, Congressmen, and editors. From the message, however, it is crystal-clear that the acute problem requiring immediate attention is that of security.

In the short time since the message was sent to Congress there have been the usual demands by Congressmen that the budget be balanced. Since most candidates, in an election year, will vigorously oppose any tax increase, balancing the budget has come to mean only one thing: appropriate less than the President has requested.

The President has proposed the largest peacetime budget in our history. This is true on three counts: the largest total expenditures, the largest total of receipts anticipated, the largest prospective deficit. Regardless of this fact, if the normal election year reactions of the Congress prevail, there will follow no drastic pruning and no tax increase, despite the feeling on the part of many economists that both should take place. Even if the physicians should agree, the treatment is so painful that it will not be undertaken.

The President's message makes it plain that not even the exigencies of an election year can be permitted to destroy that phase of national policy aimed at meeting the Soviet with at least equal, if not superior, military strength. Implementation of that policy is expected to cost more than \$65 billion in fiscal 1953, as compared with an estimated \$50 billion in 1952, \$26 billion in 1951, and less than \$18 billion in 1950. The 1953 increase over 1950 in the national security classification is a staggering 266 percent. The Administration's strongest supporters and its harshest critics cannot help but share the shock produced by the figures.

The extent to which the President has been willing to subordinate the "Fair Deal" to the defense program in his budget is clearly emphasized by the decline in non-defense expenditures. All government programs, other than those proposed for national security, are allotted somewhat over \$20 billion in a total budget of more than \$85 billion. (See chart.) Non-defense expenditures for the fiscal year 1953 will be nearly a billion dollars below the level for the present.

The President explained the test that had been applied to non-defense expenditures resulting in either reductions, maintenance of the status quo, or limited expansion: "I have sharply reduced expenditures for those programs which can be deferred or eliminated, even though these programs bring clear benefits to the nation and would be highly desirable in normal times."

Expenditures

More than three-fourths of the expenditure total is for national security purposes. These include military services, international security and foreign relations, atomic energy development, promotion of defense production, civil defense, and merchant marine activity. As the President put it, "Major national security programs

not only dominate this budget but also account for practically all of the increase in total budget expenditures since the attack on Korea."

Expenditures for military services are estimated at over \$51 billion for 1953, or 60 percent of the total. This compares with just under \$40 billion for 1952, and \$20.5 billion in 1951. The precipitous increase is due to the fact that the rate of military production has increased substantially in the past 18 months, an increase that may be expected to be even further accelerated through fiscal 1954, which the President now suggests is likely to be the high point of spending as "the price of peace." In addition to a more rapid rate of production, the projected budget figures reflect the higher costs of destructive weapons.

The largest single item in the military expenditures category is that for aircraft production. This will account for more than half the outlay for major procurement. The result, however, will not be more planes than we ever had before but rather more expensive planes. President Truman noted, for example, that in some of the new models the cost of the electronic equipment alone represents more than the entire cost of World War II planes designed for the same purpose. Over-all, this budget does not provide for stockpiling of military equipment. Our policy is to provide only for currently needed supplies and rapid expansion in an emergency, thereby attempting to avoid extremes in the economic cycle.

Another eighth of the total is allocated to military and economic assistance in accordance with our policy of containing the area of Soviet expansion by seeking to fill any actual or potential power vacuum with friends of the United States. The \$10.8 billion requested for this purpose is approximately \$3.5 billion more than the amount for fiscal 1952. This budgetary provision is considered critical by the Administration and its followers. If friendly nations are unable to maintain themselves, or if Soviet influence cannot be prevented from taking over in doubtful areas, the ultimate consequence would be isolation for the United States—and a far greater national security budget than any thus far.



Interest payments and expenditures for and on behalf of veterans account for \$10.5 billion in the President's budget. Interest on the public debt is, of course, at an all-time high, while interest on refunds of receipts (chiefly overpayment of taxes) is expected to cost more than ever before. The cost of veterans' benefits is at last on the decline, principally because of a drop in the amount required for education and training and insurance benefits. All other governmental programs will require a total of \$9.8 billion.

Revenues, Taxes, and Politics

The Truman budget for fiscal 1953 is based on revenues that will accrue from existing tax legislation. Close observers of the political scene consider this approach realistic, irrespective of the President's willingness to make his political intentions known. The President has implied that he will do so prior to the closing date for the Missouri primary, April 29. Manifestly, there would not be time for Congress to enact a new tax bill by that time even if it were disposed to do so.

If the President indicates that he will again be a candidate, it would seem that he could not afford to take another tax increase into the campaign with him, overburdened as he will be by the corruption issue and a possible foreign policy fight. On the other hand, if the President announces that he will decline renomination, the Congress will hardly care to face the voters alone and justify a tax raise. Nor does it appear that the chance for tax increases will be enhanced if the President can stay on the fence. House and Senate leaders have indicated general hesitancy about considering higher taxes, and the President seems to be resigned to the status quo if the tone of his message is a fair test.

The consequences of this situation include the \$14.4 billion deficit that the President shows in the budget. The public debt stood at \$255 billion at the beginning of the present fiscal year. It is expected to increase to about \$260 billion by the end of this fiscal year. If the projected \$14.4 billion deficit is added thereto, the debt will reach \$275 billion by June 30, 1953. That figure is the present statutory limit on the public debt, and any increase beyond \$275 billion will require Congressional action. Although the Congress will almost certainly have no choice but to raise the ceiling, the issue will become a hot political question at the very outset of the 83d Congress. Thus, a Republican victory in November would leave some solace for the Democrats in that they could highlight the fact that the first Republican fiscal action involved raising the statutory limit on the public debt.

Congressional Action and Economy

Among the more mysterious phases of American politics is the source of the suddenly acquired mathematical and statistical genius which enables Congressmen to announce immediately after the budget has been transmitted that such and such an amount can and should come off. This year proved to be the same as ever, and Senator Douglas is quoted as saying that "\$4 billion or more" can be trimmed, while Senator George sees a reduction of "about five to seven billions."

Since the Legislative Reorganization Act of 1946, Congress has had the machinery with which to establish spending ceilings. That act provides that a joint Congressional committee shall work over the President's recommendations, and report a legislative budget to the House and Senate by February 15 for adoption by con-

current resolution. This budget was to impose maximum expenditure ceilings for different purposes as well as for total outlay. Attempts to carry out the budget provision have not been successful. The legislative budget just never came off in 1947-49, and since that time it appears to have been ignored. Indeed, the area of fiscal control has been characterized as the great failure of the Congressional reorganization effort.

It seems unlikely that Congress will be very successful in finding areas lending themselves to savings. Military appropriation figures are based on the assumption that the Korean war will end before the start of the 1953 fiscal year, and, of course, that there will be no World War during the year. President Truman has said that he considers the budget to be tight, and that he will oppose a percentage trimming, which is the procedure Congress followed for the present fiscal year.

Health insurance and the Brannan plan are both conspicuously absent from the President's current budget plans, while a national FEPC program received only cursory mention. Federal aid to education is emphasized, and \$290 million is requested for such aid. A certain amount of oratory on states' rights may be expected when this item receives Congressional attention.

It should be observed that there is no substantial amount of money to be saved in non-national-security categories. Interest payments are fixed, and veterans' benefits are undoubtedly sacrosanct. The great push is in the security field, and the great policy debate will center on military and economic assistance programs.

"The Price of Peace"

In his message the President stated that "the price of peace is preparedness." In the budget, this price amounts to seventy-six percent of the total requested appropriations, or twenty-two percent of the national income. The assumption is that if the West becomes strong enough the Soviet Union will not attack. If this assumption is correct, all of us may well concede that the price is cheap; but wars are due to many causes, and it has never been established that preparedness ensures peace. The budget requests are better characterized, therefore, as a program that will help provide security if the West is attacked, and that *may*, by deterring aggression, aid in preserving a nervous peace in the period of cold war.

Psychopathology of the Postwar Economy

(Continued from page 2)

body will be laboring under the misapprehension that they are going up indefinitely.

Such a movement will, however, be as temporary in character as the others, disintegrating into the exaggerated pessimism of a new decline. For there is nothing in sight to provide continuing support for the advance. Only another world war could bring an all-out or long sustained inflation in this country.

There is every prospect that the situation for the next year or so will continue unchanged, its characteristics being—as they have been throughout the post-war years—high-level prosperity and unrelieved world tension. It is also likely that we shall soon feel ourselves to be off for another ride on the roller coaster; for within the limits of these conditions, there is ample scope for the forces that could take us through another cycle of inflationary boom and setback.

VLB

LOCAL ILLINOIS DEVELOPMENTS

Indexes of business activity in Illinois showed contrasting movements during December. Coal production and construction contract awards dropped substantially. Department store sales in Chicago were off 4 percent after seasonal adjustment. On the other hand, electric power production and petroleum output showed large rises. Yearly comparisons of the indexes show that increases were general and that large advances occurred in such important industries as construction and petroleum production.

Steel production in the Chicago district dropped slightly to 1,847,000 tons, as scheduled operations fell from 105.4 percent of rated capacity to 101.3 percent. For the year 1951, steel mills in the area operated at 103.8 percent of capacity and turned out 22.3 million net tons.

Business Population Stable

The number of firms in operation in the State was only slightly lower at the beginning of 1951 than it was a year earlier; during 1949 and 1948 substantial declines had occurred. As shown in the accompanying chart, about 269,000 and 266,000 firms were in operation at the beginning of 1950 and 1951, respectively, considerably below the postwar high of 277,000 at the beginning of 1948. The chart also shows the extent of the shift from a net increase to a net decrease in the business population, as the number of new businesses established dropped rather sharply and the number of discontinuances rose.

From 1948 to 1951 there was a slight gain in the number of firms in operation for the nation, but a small

decrease for the central states and a sizable decline in Illinois. In this State, increased numbers of firms in mining and quarrying; contract construction; and transportation, communications, and other public utilities were more than offset by the net declines in the number of firms in manufacturing; retail and wholesale trade; finance, insurance, and real estate; and service industries.

Retail establishments accounted for nearly 40 percent of all Illinois businesses in operation at the beginning of 1951; service industries accounted for another 20 percent; and contract construction, manufacturing, and wholesale trade firms for yet another 20 percent.

Construction Off

Construction contracts awarded in the State during December dropped nearly 14 percent from the November level to \$72.3 million. Awards for nonresidential building declined 8 percent; residential contracts were down more than 31 percent. Only in the case of public works and utilities was there a rise, 4 percent. In comparison with December, 1950, however, total awards made in December, 1951, registered an increase of more than 35 percent.

A year-to-year comparison shows that 1951 contracts let in Illinois, totaling \$981.2 million, were more than 5 percent higher than the total of the previous year. Nonresidential building awards at \$410.2 million were up more than 7 percent; public works and utilities contracts rose more than 45 percent to \$155.3 million. The shift away from residential building was reflected in the drop of nearly 6 percent in that category.

Help for Small Businesses

Forty small business firms, 37 of them in the Chicago area, have recently organized in an effort to facilitate their procurement of defense contracts. The group, named the Illinois Manufacturers Defense Pool, Inc., includes tool and die makers, foundries, forges, machine shops, electronic equipment producers, plating works, gear plants, paper companies, and printing shops. Altogether the 40 companies employ about 2,500 skilled workers. The organization will furnish the facilities—procurement, financial, technical, and other—needed to obtain government contracts which the firms individually might not be able to fill.

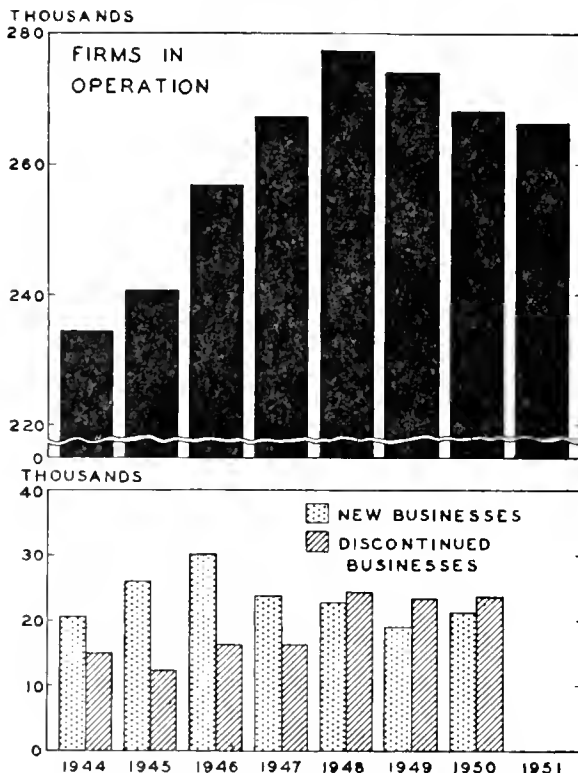
Prices Remain Steady

Both consumers' prices and farm prices during the month ended December 15 remained at or near the November level. The Chicago consumers' price index, at 194.2 percent of the 1935-39 average, was down only very slightly, with no marked changes in any of the subgroups.

Prices received and paid by Illinois farmers were unchanged, the indexes remaining at 302 and 284 (1910-14 = 100), respectively. In the case of the index of prices received, increases in prices of most crops and dairy products were offset by declines in the prices of meat animals and poultry and eggs.

Retail food prices continued to rise during the month ended November 15, the latest period covered, in the Illinois cities reported. Increases of 1 to 2 percent reflected diverse movements in subgroups, with increases more common and somewhat larger than declines.

BUSINESS POPULATION



Source: Office of Business Economics, U. S. Dept. of Commerce.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

December, 1951

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS							
ILLINOIS.....		\$10,763 ^a	900,515 ^a	\$509,406 ^a		\$11,456 ^a	\$15,698 ^a
Percentage Change from.....	{ Nov., 1951.....	-36.8	+0.9	-2.8	+32.7	+3.7	+11.4
	{ Dec., 1950.....	-39.2	-0.0	+1.6	-2.4	-1.0	+4.6
NORTHERN ILLINOIS							
Chicago.....		\$8,209	702,512	\$373,784		\$10,448	\$13,381
Percentage Change from.....	{ Nov., 1951.....	-37.2	+1.3	-2.9	+31.1	+4.2	+7.0
	{ Dec., 1950.....	-36.0	-1.4	-0.2	-3.2	-1.4	+3.9
Aurora.....		\$ 202	n.a.	\$7,507		\$ 43	\$ 124
Percentage Change from.....	{ Nov., 1951.....	+159.0		+3.6	+33.4	-2.5	+30.0
	{ Dec., 1950.....	+55.4		+16.1	-1.7	+6.0	+15.5
Elgin.....		\$ 242	n.a.	\$5,125		\$ 29	\$ 118
Percentage Change from.....	{ Nov., 1951.....	-56.6		-2.5	+41.3	-3.8	+21.1
	{ Dec., 1950.....	-43.2		+0.2	+5.7	+2.3	+6.4
Joliet.....		\$ 160	n.a.	\$9,746		\$ 52	\$ 134
Percentage Change from.....	{ Nov., 1951.....	+1.3		-5.3	+50.4	-1.5	+61.1
	{ Dec., 1950.....	+68.4		+10.6	+0.8	+4.8	+16.8
Kankakee.....		n.a.	n.a.	\$4,453		n.a.	\$ 52
Percentage Change from.....	{ Nov., 1951.....			-5.9	+42.0		+48.8
	{ Dec., 1950.....			+6.9	-3.6		+8.0
Rock Island-Moline.....		\$ 276	18,605	\$9,700		\$ 35 ^b	\$ 216
Percentage Change from.....	{ Nov., 1951.....	-63.8	+3.1	-4.9	n.a.	-9.6	+37.4
	{ Dec., 1950.....	-56.7	+2.3	+12.6		+10.1	+12.9
Rockford.....		\$ 500	26,066	\$15,650		\$ 133	\$ 269
Percentage Change from.....	{ Nov., 1951.....	+4.8	-0.5	+0.3	+52.3	+4.9	+58.1
	{ Dec., 1950.....	+5.9	+2.2	+6.0	+5.2	+7.0	+9.4
CENTRAL ILLINOIS							
Bloomington.....		\$ 36	5,706	\$5,192		\$ 48	\$ 119
Percentage Change from.....	{ Nov., 1951.....	+63.6	+2.5	-3.9	n.a.	+0.3	+19.9
	{ Dec., 1950.....	-82.9	+16.6	+2.2		+0.4	+24.2
Champaign-Urbana.....		\$ 69	8,294	\$7,174		\$ 50	\$ 128
Percentage Change from.....	{ Nov., 1951.....	-64.2	+1.7	-2.9	n.a.	-3.5	+58.8
	{ Dec., 1950.....	-77.3	+2.7	+9.2		+7.5	+11.3
Danville.....		\$ 71	7,800	\$5,795		\$ 42	\$ 85
Percentage Change from.....	{ Nov., 1951.....	-69.7	-3.8	-4.7	+47.0	-6.8	+60.5
	{ Dec., 1950.....	+47.9	+4.5	+3.4	+2.1	+7.8	+5.4
Decatur.....		\$ 529	19,725	\$9,244		\$ 85	\$ 143
Percentage Change from.....	{ Nov., 1951.....	+239.1	-14.0	-1.2	+39.6	-5.2	+55.0
	{ Dec., 1950.....	+348.3	+7.7	+5.5	-0.4	+0.2	+4.0
Galesburg.....		\$ 22	6,010	\$3,881		n.a.	\$ 51
Percentage Change from.....	{ Nov., 1951.....	-95.2	+2.8	-5.3	n.a.		+61.6
	{ Dec., 1950.....	-82.0	+18.7	+6.3			+12.0
Peoria.....		\$ 176	45,915 ^c	\$16,901		\$ 203	\$ 301
Percentage Change from.....	{ Nov., 1951.....	-37.8	-0.9	-0.8	+35.1	+0.1	+45.0
	{ Dec., 1950.....	-81.2	+0.7	+3.4	+0.7	+2.9	+6.1
Quincy.....		\$ 82	6,933	\$4,694		\$ 34	\$ 93
Percentage Change from.....	{ Nov., 1951.....	+10.8	+1.7	-4.7	+30.0	-4.6	+25.4
	{ Dec., 1950.....	+215.4	-0.4	+1.3	-12.0	+3.6	-5.3
Springfield.....		\$ 123	25,455 ^c	\$13,119		\$ 93	\$ 282
Percentage Change from.....	{ Nov., 1951.....	-63.6	+2.6	-1.2	+34.9	+7.8	+53.5
	{ Dec., 1950.....	-86.2	+15.2	+8.2	+29.0	+1.6	+10.5
SOUTHERN ILLINOIS							
East St. Louis.....		\$ 34	11,734	\$8,799		\$ 130	\$ 94
Percentage Change from.....	{ Nov., 1951.....	-75.2	+0.0	-4.0	n.a.	-5.8	+72.2
	{ Dec., 1950.....	-86.4	+7.9	+13.4		+4.7	-3.5
Alton.....		n.a.	10,345	\$4,621		\$ 32	\$ 46
Percentage Change from.....	{ Nov., 1951.....		+3.9	-3.2	n.a.	+11.2	+63.5
	{ Dec., 1950.....		-2.3	+2.4		+8.2	+4.7
Belleville.....		\$ 32	5,145	\$4,020		n.a.	\$ 61
Percentage Change from.....	{ Nov., 1951.....	+14.3	+12.0	-5.0	n.a.		+61.2
	{ Dec., 1950.....	-85.0	+13.8	+0.6			+5.0

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for November, 1951, the most recent available. Comparisons relate to October, 1951. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

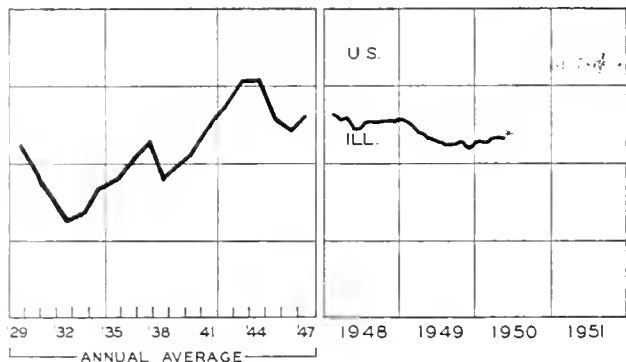
^c Includes immediately surrounding territory.

n.a. Not available.

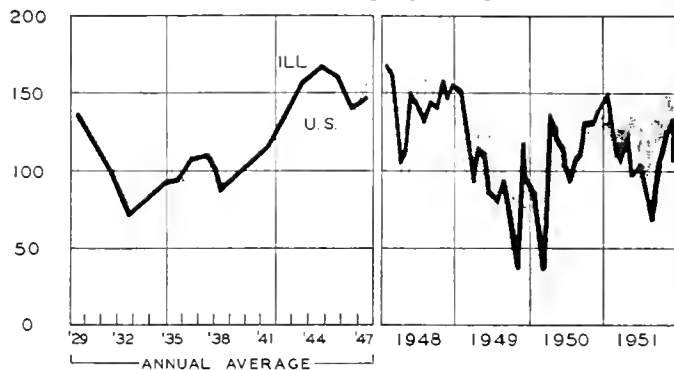
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

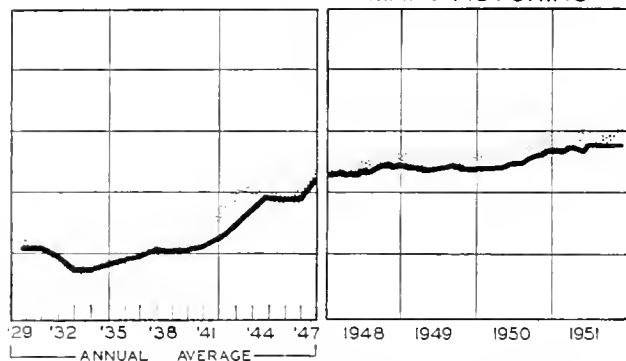
EMPLOYMENT-MANUFACTURING



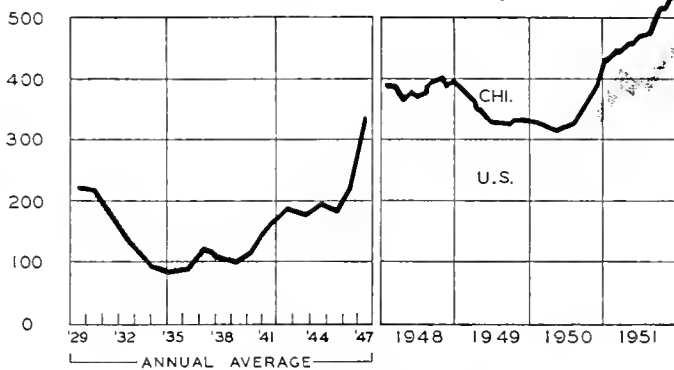
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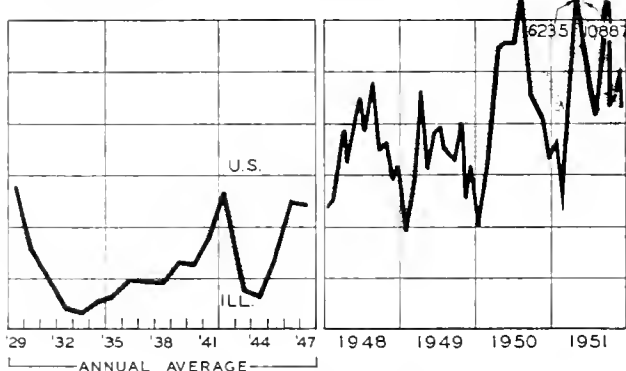
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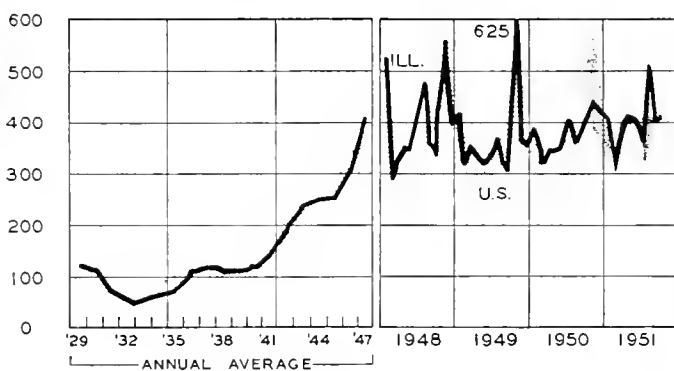
BUSINESS LOANS



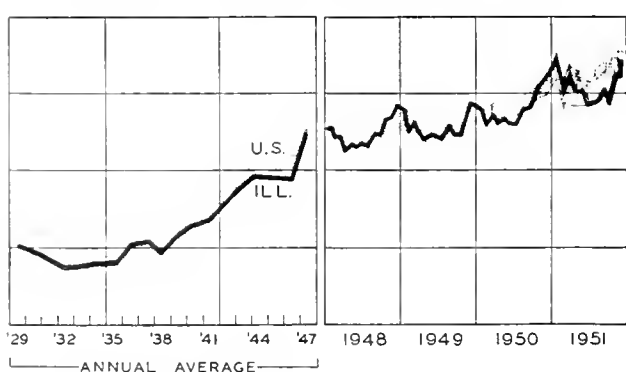
CONSTRUCTION CONTRACTS AWARDED



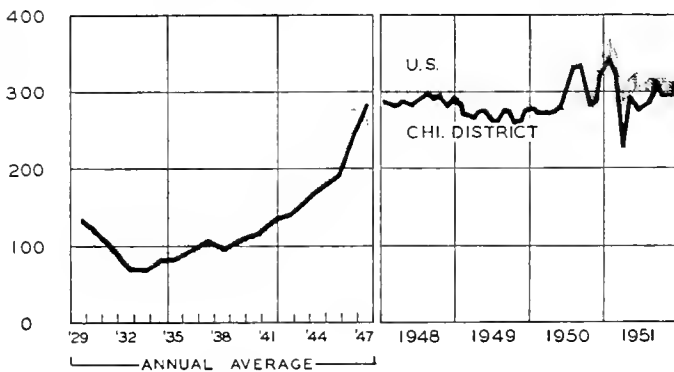
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



* Illinois figures being revised.

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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VOLUME IX

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HIGHLIGHTS OF BUSINESS IN FEBRUARY

For the first time since the outbreak of fighting in Korea, there were indications that the worst of the restrictions on civilian production are not "yet to come" but are already here. The extension of the rearmament program over a longer period, the sustained high level of industrial production, and cautious buying by consumers have all contributed to a greater easing of materials supply than was originally anticipated.

As a result, the government is reappraising the supply situation. Steel products now in plentiful supply are scheduled to be decontrolled shortly, and allotments of others remaining under controls are to be liberalized. Restrictions on the construction of homes, office buildings, and other projects have been eased, and production quotas for auto manufacturers in the second quarter have been increased to 1,050,000 cars; this exceeds the previously announced allotment for that quarter by 13 percent. Complete elimination of controls is not likely at present, however, because many materials essential for war production, such as heavy plate steel, copper, cobalt, and nickel, are still in short supply.

Industrial Production Stable

Meanwhile, business has remained on an even keel. The Federal Reserve Index of industrial production registered no change from its January level of 219 percent of the 1935-39 average, as the high level of output for military purposes continued to offset the reduced production of civilian goods. Only 330,000 cars and trucks were produced in February, a rate well below the first-quarter quota of one million vehicles.

The employment picture also showed little change. The estimates of employment and unemployment in February were much the same as in January — 59.8 million held jobs and 2.1 million were unemployed.

Wholesale Price Index Revised

The Bureau of Labor Statistics has revised its comprehensive wholesale price index. The new index covers about 2,000 commodities, as compared with 900 formerly. It is less sensitive to price changes than the old one, having a greater proportion of manufactured commodities, the prices of which move more slowly than those of raw materials or semimanufactures.

The base of the new index is the average level of

wholesale prices in 1947-49 instead of 1926. The purpose of this change was to use a recent period as the base, and the Bureau emphasizes that it does not intend to impart any idea of normalcy to 1947-49 for this reason. The use of this new base does serve, however, to lower the level of the index appreciably, because prices in 1947-49 averaged some 60 percent higher than in 1926. The new index stood at 111.7 on February 26, 1.3 percent below the January level.

Construction Down Seasonally

The value of new construction put in place was down seasonally in February. At \$2 billion, it was off 7 percent from January. All major types of construction shared in the drop with the exception of private industrial building, which was bolstered by the aircraft and basic metals expansion programs.

Construction of over 60,000 new private homes was begun in January. This is the same number as in January of last year, a year in which nearly one million new homes were started. Continuation of this rate of home building, now facilitated by the easing of materials restrictions, would lead to housing starts for the year considerably in excess of the original government estimate of 800,000 units.

Corporate Securities Offerings in 1951

United States corporations offered \$7.8 billion of securities for sale last year, more than in any year since 1929. Although bonds and notes composed the bulk of the offerings, a continuation of the trend toward equity financing (common and preferred stocks) was evident. Over 26 percent of the funds was raised in this manner as compared with 23 percent, 19 percent, and 16 percent in the three preceding years. Of interest also is the continuing shift to privately-placed securities, the volume of these direct offerings in 1951 reaching a new peak of \$3.4 billion. Uncertainties in the bond market and the advantages made possible by the use of forward commitments account in part for the shift to private sales.

Reflecting the tremendous industrial expansion programs, \$6.5 billion of the total raised from the sale of these new securities was used for new money purposes. Of this sum, the \$5.1 billion raised for plant expansion exceeds that for any previous year on record.

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Uncertain but Not Unsound

Underlying the ups and downs of the postwar economy is uncertainty about the possibility of World War III. This is in a real sense the only important uncertainty in the present situation, because the war program that has been established practically rules out the possibility of economic collapse.

Judgments about the international situation vary greatly. Some people consider war highly probable; others, highly improbable. Whatever the likelihood may actually be, a course of action looking toward both alternatives is required. If war is coming, certain things ought to be done; if peace is to prevail, others would be more advantageous. Since we can't know which, action should logically represent some kind of compromise. Yet, many people would apparently rather go all one way, or all the other, than pursue a consistent line of mixed action.

Inventory Reversal Depresses Profits

The way this uncertainty affects business operations is strikingly reflected in inventory policy. The question it poses is: How large should inventories be? If we face a period of war—probably a much more destructive war than either of the last two—it would be desirable to hold greatly enlarged inventories of many goods for use in the period of war shortages. If, on the other hand, there will be no war but rather, over a period of time, a curtailment of war programs, then even present inventories may be excessive.

Assuming that the suitable level of holdings in each case can be worked out to at least an approximation, then the desired goal for present holdings could be calculated in terms of the chances favoring each contingency. Determining the goal in this way would produce a relatively stable figure, one that business operations could be adjusted to achieving and maintaining.

In contrast, changing sentiment is reflected in the rapid building up of inventories at this time last year and in the rapid liquidation of inventories in many civilian industries in recent months. This reversal of inventory policy on the part of both business and the public is the key to the letdown of the last nine months. Like other setbacks of this kind, it is bound to be temporary in character, and the turning point already appears to be near at hand.

The decline in profits can, of course, be pointed to as justification for fears of excessive inventories. But how serious is the decline in corporate earnings? The latest Department of Commerce data show that the shift in inventory revaluation and increased taxes account for the entire decline. Profits before taxes dropped at an annual rate of \$9 billion from the fourth quarter of 1950 to the fourth quarter of 1951. But inventory revaluation alone produced a decline of almost \$11 billion—swinging from an annual rate of increase of over \$8 billion to a rate of decrease of \$2½ billion.

Aside from this, higher tax rates explain the decline. Corporate income taxes were higher on the reduced earnings of the fourth quarter of 1951 than they were on the inflated profits of the year before. As a result, profits after taxes were driven down from a rate of \$28 billion to \$17 billion, a decline of about 40 percent.

Now, however, the threat of further declines from inventory revaluation has largely disappeared, and taxes have become as much a protection as a threat to future earnings. Any future decline in earnings will be cushioned by tax reductions; if losses are incurred, they will be largely recouped from the carry-over of tax credits. Having already undergone all the contraction in prospect, the outlook for profits is favorable.

Crosscurrents in the Stock Market

Business fears and uncertainty inevitably carry over into the stock market, where changes in sentiment are quickly reflected in price action. As the historical record shows, a war scare is likely to result in rapid fluctuations—first to knock the market down briefly, and then to sort out the stocks whose positions will be improved and build them up at the expense of those whose prospects are unfavorably affected.

In the first upsurge after the Korean outbreak, that was the primary pattern of market behavior. Much attention was given to evaluating prospects in terms of what war—and all that goes along with it in the way of controls, rising costs, and taxes—would mean to each company's position. The result was rather extreme emphasis on certain favored issues, particularly industries producing basic materials whose markets were greatly expanded. At the other extreme, the stocks of some civilian industries, such as finance companies, were forced well below their usual market appraisal.

Although the logic of this approach was unassailable, there are spots where it was undoubtedly carried too far, so that price differentials between the favored few and other well-situated issues became too wide. Here again, what the situation required was a kind of compromise between the values of a wartime situation and those of a nervous "cold-war peace," weighting the results in proportion to the relative chances of each contingency. In the last nine months, however, important crosscurrents in the market have arisen out of the inventory recession. Stocks in some industries—such as textiles, apparel, and retail stores—have been depressed by this temporary business letdown to a point beyond any reasonable appraisal of prospects for the years immediately ahead.

Looking at the market as a whole, there seems little basis for the pessimistic predictions of the professional bears. There is a basic lack of certainty about the present situation, but depression is not the alternative that gives rise to it. With business conditions firm, yields on stocks

(Continued on page 6)

MACHINE TOOLS: BASIC IN PEACE AND WAR

Modern assembly-line mass production owes its existence to the development of machine tools which are able to manufacture thousands of metal parts so nearly identical that they can be interchanged in assembly or repair without the prohibitive cost of hand fitting.

The skill of machine tool makers is built into their products so that operators of average ability can merely push buttons and levers to make parts with dimensional limits of error measured in ten-thousandths of an inch.

A Relatively Small Industry

Demand for machine tools fluctuates with the business cycle, as most industrial capital expenditures are made in boom times. Although it is a basic industry, the manufacture of machine tools has had a relatively small dollar sales volume, which stayed below \$200 million until the unprecedented demand of World War II.

The *Census of Manufactures* defines machine tools as power-driven devices for shaping metal by grinding or cutting away chips and shavings. Lathes, drilling and boring tools, and milling machines usually make up three-fourths of the industry's output. The oldest and most frequently used machine tool is the lathe, which rapidly turns the material to be shaped against a cutting edge, peeling off a ribbon of metal. Other major groups of machine tools include drilling and boring machines for making holes in metal and milling machines which remove metal by bringing multiple cutting edges into contact with the work piece. Shapers and planers cut off metal shavings, and grinders use power to speed up the effectiveness and precision of the old-fashioned grindstone.

These tools may be made in the form of general-purpose machines whose particular type of operation can be used on any job for which they are adapted, or as special machines designed by their makers to do a specific task of mass production. There is an unlimited number of possible combinations, and some special-purpose models incorporate as many as 100 tools into a single production unit that may do all the machining necessary on a part at one time.

The Rockford Machine Tool Center

American manufacturers made their own machine tools until about the time of the Civil War, when increasing industrialization created enough demand to support a separate industry. Machine tool manufacture started on the East Coast and moved West with the migration of skilled mechanics to such cities as Cleveland, Cincinnati, and Rockford.

Today Ohio, Indiana, Michigan, Illinois, and Wisconsin account for about 60 percent of the total annual production value of machine tools. In 1947 the *Census of Manufactures* reported the Illinois machine tool value of product to be the fourth largest among the states. The 24 Illinois machine tool plants employed 4,200 men and turned out a volume of production valued at \$38.5 million.

The growth of the machine tool industry in Illinois

followed the settling in the territory of skilled mechanics and designers, attracted originally by the Rock Island Arsenal and the rapid growth of watch and clock manufacturing at Elgin and LaSalle. Much later, in the 1930's, the rise of the automobile industry in nearby Michigan was paralleled in the Rockford area by the development of heavy special purpose machine tools for mass production of automobile parts.

Rockford is now the second largest machine tool building center in the United States, outranked only by Cleveland. Even before the Civil War it was important in the manufacture of furniture and agricultural, textile, and woodworking machinery. The city was originally populated by New Englanders, many of them expert mechanics, supplemented by an influx of Scandinavians who were drawn to woodworking facilities and then to machine tool building.

In addition to nine machine tool companies located in Rockford, one in Freeport, and one in Moline, there are a dozen such manufacturing plants in the Chicago area. Because of a comparatively short supply of skilled machinists when the industry first migrated to Illinois, Chicago did not develop as a major center of tool production, although it makes a substantial quantity of machine tools, as well as steel and machinery supplies used in their manufacture.

A Key Factor in Defense

During World War II the machine tool industry produced 900,000 tools, or as many as it had made in the previous forty years. After the war, however, the demand for machine tools was met largely with war surplus supplies and many of the companies cut down productive facilities and personnel.

By June, 1950, the industry was producing tools at a peacetime rate of \$324 million a year. When the United Nations troops entered Korea, machine tool orders poured in from companies for expansion and replacement of old tools, but the urgency of machine tool manufacture for defense was not recognized in Washington until 6 or 8 months later.

Since then the government has carried on a program of aid to the industry, including financial assistance to increase working capital for machine tool expansion, and a new priority label for materials and parts with the same preferential status as direct military orders. A billion dollars worth of government pool orders have been given to machine tool manufacturers, guaranteeing to buy the tools that cannot be sold to private industry.

Switching from piston engines to jets has tremendously increased tool needs, and rapidly expanding facilities make it probable that the World War II peak rate of \$1.3 billion annual output will be reached by July.

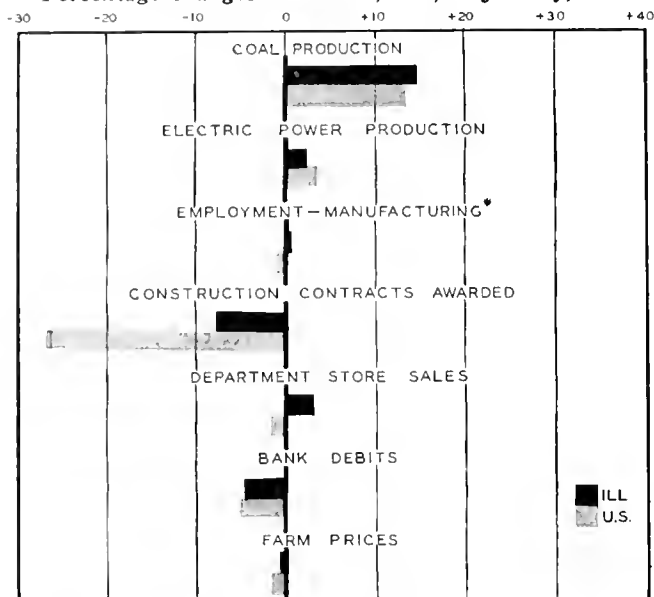
The National Production Authority has been working on a stockpiling plan which would maintain a reserve of 80 percent of the tools the country would need to fight an all-out war, and also to keep the industry operating on a high and stable base.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes December, 1951, to January, 1952



*November, 1951, to December, 1951

ILLINOIS BUSINESS INDEXES

Item	January 1952 (1947-49 = 100)	Percentage Change from	
		Dec. 1951	Jan. 1951
Electric power ¹	143.5	+ 2.3	+ 0.4
Coal production ²	96.8	+14.6	-15.1
Employment—manufacturing ³	102.2	+ 0.3 ^a	+ 0.4 ^b
Payrolls—manufacturing ³	n.a.		
Dept. store sales in Chicago ⁴	104.7 ^e	+ 3.0	-10.1
Consumer prices in Chicago ⁵	114.1 ^d	- 0.1	+ 4.7
Construction contracts awarded ⁶	125.5	- 7.8	+ 8.7
Bank debits ⁷	125.2	- 4.5	- 6.6
Farm prices ⁸	116.8	- 0.7	+ 1.7
Life insurance sales (ordinary) ⁹	108.9	-12.0	+ 3.6
Petroleum production ¹⁰	96.3	- 3.8	+ 1.4

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a November to December, 1951. ^b December, 1950, to December, 1951. ^c Seasonally adjusted. ^d On 1935-39 base, the index was 194.1. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	January 1952	Percentage Change from	
		Dec. 1951	Jan. 1951
	Annual rate in billion \$		
Personal income ¹	257.3	- 0.4	+ 5.5
Manufacturing ¹			
Sales	274.8 ^a	+ 8.0	+ 1.3
Inventories	41.9 ^{a, b}	- 0.2	+22.9
New construction activity ¹			
Private residential	8.6	-11.0	-20.2
Private nonresidential	8.9	+ 3.9	+ 8.2
Total public	8.0	- 4.9	+31.3
Foreign trade ¹			
Merchandise exports	15.0	-13.2	+28.0
Merchandise imports	11.1	+15.1	- 9.9
Excess of exports	3.9	-48.9	....
Consumer credit outstanding ²			
Total credit	20.1 ^b	- 2.7	+ 0.7
Installment credit	13.3 ^b	- 1.4	+ 0.5
Business loans ²	21.2 ^b	- 2.0	+17.4
Cash farm income ³	31.2	-16.2	+ 3.5
	Indexes (1947-49 = 100)		
Industrial production ²			
Combined index	118 ^a	+ 0.4	- 0.9
Durable manufactures	130 ^a	- 0.4	+ 4.5
Nondurable manufactures	109 ^a	+ 1.1	- 7.0
Minerals	112 ^a	+ 0.6	0.0
Manufacturing employment ²			
Production workers	103 ^a	- 0.1	- 2.2
Factory worker earnings ¹			
Average hours worked	102	- 1.2	- 0.7
Average hourly earnings	124	+ 0.4	+ 5.5
Average weekly earnings	126	- 0.8	+ 4.8
Construction contracts awarded ⁶	118	-26.9	-13.5
Department store sales ²	107 ^a	- 1.8	-14.4
Consumers' price index ⁴	113 ^c	0.0	+ 4.2
Wholesale prices ¹			
All commodities	113	- 0.3	- 1.6
Farm products	110	- 1.2	- 2.0
Foods	111	+ 0.4	+ 0.9
Other	114	- 0.3	- 2.0
Farm prices ³			
Received by farmers	111	- 1.6	0.0
Paid by farmers	115	+ 1.0	+ 5.5
Parity ratio	105 ^d	- 1.9	- 4.6

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ^a Seasonally adjusted. ^b As of end of month. ^c On 1935-39 base, 189.1. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1952					1951
	Feb. 23	Feb. 16	Feb. 9	Feb. 2	Jan. 26	Feb. 24
Production:						
Bituminous coal (daily avg.)	1,679	1,766	1,764	1,733	1,870	1,727
Electric power by utilities	7,461	7,440	7,456	7,572	7,616	6,833
Motor vehicles (Wards)	104.4	105.5	95.4	96.3	88.5	188.8
Petroleum (daily avg.)	6,267	6,259	6,265	6,131	6,099	5,864
Steel	234.1	232.9	234.1	232.9	231.3	222.8
Freight carloadings	683	738	734	731	728	735
Department store sales	240	257	251	242	240	274
Commodity prices, wholesale:						
All commodities	174.8	175.4	175.8	176.3	175.9	183.8
Other than farm products and foods	164.2	164.9	164.8	165.3	165.0	171.8
28 commodities	310.4	315.0	317.7	320.3	323.1	390.4
Finance:						
Business loans	21,148	21,144	21,110	21,160	21,286	18,588
Failures, industrial and commercial	177	125	134	164	142	127

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Rapid Expansion in Steel

In recent weeks, there has been considerable debate concerning the need for further expansion by the steel industry to meet current and future demand. At present, supplies of a few products are about adequate; but supplies of many items are still short. In the main, the disagreement arises over how serious the shortages are and how long they will last, and is reflected in discussions as to the necessity of controls and how large future additions to plant and equipment should be. It is believed in some quarters that adequate supplies of certain types of steel reflect mainly the shortage of other metals commonly used with those types.

Since the beginning of 1947, rated capacity of the steel industry has been increased by more than 17 million tons, of which 4.3 million tons was added in 1951, as shown by the accompanying chart. Over the same five-year period output has been raised by more than 20 million tons. During the last year and a half output has risen as capacity rose, so that monthly output has nearly matched or slightly exceeded capacity.

Capital expenditures during the five years 1947-51 amounted to \$3.1 billion; last year alone more than \$1 billion was put into new furnaces, coke ovens, rolling mills, and other facilities. Planned expenditures for 1952 amount to \$1.3 billion.

Sales Higher

Sales of both retailers and manufacturers rose during January to seasonally adjusted levels well above those of December. Manufacturers' sales amounted to \$22.9 billion, 8.0 percent over the previous month. Most of the addition occurred in durable-goods sales, up nearly 13 percent to \$11.5 billion; nondurable-goods sales rose less than 4 percent. For the first time in a year and a half, inventories failed to rise; at \$41.9 billion, the book value of stocks was off just slightly from the December level. Unfilled orders for durables have leveled off at about \$57 billion, over five times the monthly level of sales; in the

last few months, nondurables unfilled orders have been steady at \$4 billion or \$5 billion, less than half of monthly sales.

Expanded sales of durables were also largely responsible for the January increase in retail sales after seasonal adjustment. At \$12.6 billion, the level of total sales was up 2.0 percent; sales of durables increased 4.9 percent over December, whereas sales of soft goods rose only 0.6 percent. Sizable increases were general among all major categories of durable goods; among nondurables, gains were somewhat smaller, and some declines were indicated.

Employment Up Slightly

Employment showed a minor rise from January to February. According to the Bureau of the Census, the number of workers with jobs, 59,752,000, was the highest on record for February. Unemployment also rose slightly but remained well below the year ago level. Monthly data, in thousands of workers, are as follows:

	February 1952	January 1952	February 1951
Civilian labor force.....	61,838	61,780	61,313
Employment.....	59,752	59,726	58,905
Agricultural.....	6,064	6,186	5,930
Nonagricultural.....	53,688	53,540	52,976
Unemployment.....	2,086	2,054	2,407

Prices Level or Down

The substantial degree of stability evident in prices during the last few months was continued in the latest reported periods. The BLS consumers' price index—the "cost of living" index—was unchanged from mid-December to mid-January. On the revised base, the index on January 15 remained at 189.1 (1935-39 = 100).

Farm prices received dropped 4 percent during the month ended February 15 to 289 (1910-14 = 100), the lowest level since December, 1950. Prices paid rose 1 index point to 288, so that the parity ratio dropped from 105 to 100, the lowest point since June, 1950.

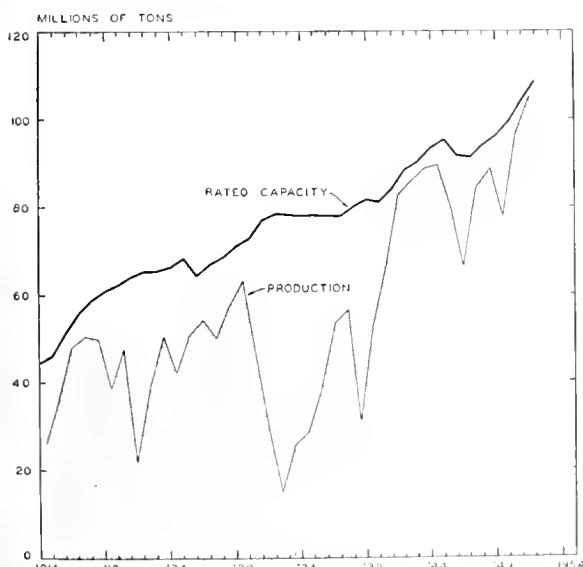
Sources and Uses of Corporate Funds

Corporate use of funds totaled \$38.0 billion in 1951, a little more than 3 percent below the 1950 level. In general, capital funds were shifted from receivables and liquid assets into plant and equipment and, to a smaller degree, into inventory accumulation. Expenditures on fixed assets rose more than \$5 billion to \$21.7 billion, nearly 60 percent of the total. Despite the shift away from liquid assets, the over-all position compared favorably with the level of liquidity in earlier peacetime periods of high-level business activity.

There was a shift also from internal to external financing. A more rapid advance in taxes than in profits and maintenance of dividend payments cut retained earnings from \$12.9 billion in 1950 to \$7.8 billion in 1951. Funds temporarily available from depreciation allowances and tax accruals were nearly \$2 billion higher in 1951 than in 1950; bank loans provided another \$1 billion.

American corporations resorted more to the securities market during 1951 than in the years immediately preceding. Manufacturing firms particularly were more active in the market than in 1950 and 1949, obtaining net funds equal to or slightly in excess of the earlier postwar peak. This development reflects especially the high fixed-capital needs of manufacturers expanding facilities for defense production.

STEEL CAPACITY AND PRODUCTION



Source: American Iron and Steel Institute.

Record Foreign Trade in 1951

The exchange of goods between the United States and foreign nations reached record proportions in 1951. Exports valued at \$15 billion exceeded 1950's foreign sales by nearly \$5 billion and were only slightly lower than the 1947 peak. Imports reached a new high of nearly \$11 billion, \$2 billion over 1950.

Much of the increased dollar value of foreign trade was due to price changes. Export volume was up one-third and import volume was virtually unchanged, so that higher prices accounted for a sizable portion of the higher value of goods shipped abroad and all of the rise in value of goods purchased from other countries.

As the accompanying chart shows, our export balance again increased in 1951. During the latter half of 1950 American businesses and the Federal government were buying large quantities of materials abroad for stockpiling and defense shipments had not yet got well under way, so that the gap in our foreign trade was then very narrow. During 1951, however, a number of new factors entered the picture. Shipments under the Mutual Defense Assistant Program (MDAP) expanded; exports of coal and petroleum increased as production abroad lagged behind industrial needs or failed altogether, as in the case of oil shipments from Iran. Grain shipments rose to fill the gap caused by crop failures elsewhere.

On the import side, purchases declined fairly steadily throughout the year as production—and hence the need for imported raw materials—leveled off and was partially supported by previously enlarged stockpiles. By the fourth quarter of 1951, the export gap had reached \$6.1 billion at an annual rate, about two-thirds of the widest postwar spread in the second quarter of 1947. At that time shortages abroad of nearly everything boosted our exports to a record high and limited imports severely.

National Product Still Rising

Gross national product continued to rise during the final quarter of 1951 to \$334.6 billion. The latest increase, \$5.1 billion, although larger than the third-quarter increment, was still somewhat smaller than the advances which occurred during the first two quarters of the year. An increase of \$3 billion in government purchases of goods

and services was the chief factor in the rise. Expenditures for personal consumption and net foreign investment also increased slightly. Savings continued at the peak postwar rate of \$20 billion.

Trends apparent in earlier quarters were continued. Personal consumption spending showed a further slight decline in durables purchases which was more than offset by rises in purchases of nondurables and services. Expenditures for producers' durable equipment were the chief support of private domestic investment; new construction and inventory accumulation were both lower than in the earlier mobilization period. Net foreign investments rose as the military aid program got started.

For the year as a whole, GNP totaled \$327.8 billion, 16 percent over 1950's \$282.6 billion. Real output registered a gain of 8 percent with the remainder of the advance accounted for by price increases. As shown in the accompanying tabulation, increased purchases by government took no less than 45 percent of the total addition to GNP. Private domestic investment accounted for another 22 percent. Thus, nearly two-thirds of the annual increment reflected expenditures closely connected with mobilization. Despite the larger portion going to defense, consumers were able to raise their purchases from \$193.6 billion to \$205.5 billion as consumers' goods remained readily available.

GROSS NATIONAL PRODUCT OR EXPENDITURE

	(billions of dollars)		
	1951	1950	4th Qtr. 1951*
Gross national product	327.8	282.6	334.6
Personal consumption	205.5	193.6	206.7
Durable goods	26.8	29.2	25.0
Nondurable goods	111.8	102.3	113.6
Services	66.8	62.1	68.1
Domestic investment	59.1	48.9	54.6
New construction	22.2	22.1	20.7
Producers' durable equipment	27.3	22.5	29.0
Change in business inventories	9.7	4.3	4.9
Nonfarm inventories only	8.0	3.6	3.3
Foreign investment .....	.2	-2.3	2.5
Government purchases	63.0	42.5	70.7

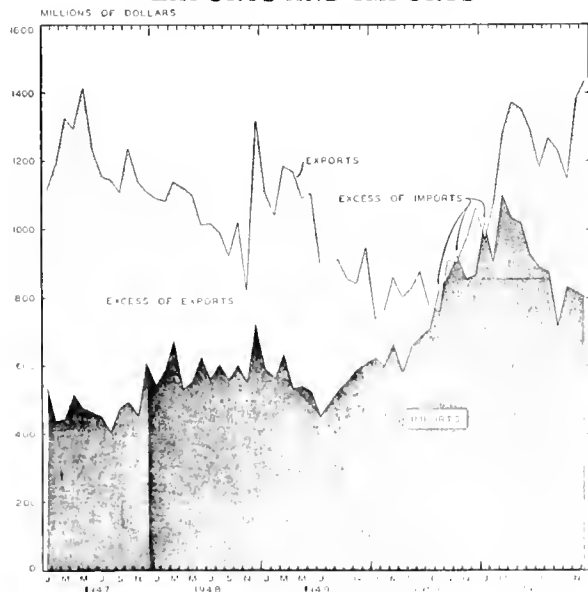
INCOME AND SAVINGS

National income	275.8†	239.0	281.2†
Personal income	251.1	224.7	257.0
Disposable personal income	222.6	204.3	227.2
Personal saving	17.2	10.7	20.5

* Seasonally adjusted, at annual rates.

† Estimated by the Department of Commerce on the basis of the past relationship of corporate profits and inventory valuation adjustment to private nonfarm gross national product.

EXPORTS AND IMPORTS



Source: U. S. Department of Commerce.

Uncertain but Not Unsound

(Continued from page 2)

should continue well above those available on bonds until prices have again pushed ahead. Month by month, the market gains support: Institutional investors, including the pension funds of the large labor unions, are either putting new funds into the market, or stand ready to do so if prices decline moderately. Participation by the public is also increasing, and although this movement is more speculative in character, it has not yet reached the danger point of unrestrained bidding for stocks priced beyond their real worth. The "bogy of historical highs" cannot undermine a position basically so sound.

The forces determining business activity and market values still point upward. Making such adjustments as we can for the possibility of all-out war, there is every reason to follow a consistent policy with confidence.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

New Insulating Materials

Glass Fibers, Inc., Toledo, Ohio, has announced that it has developed a highly specialized glass fiber chemically identical with quartz. It has been successfully made into a quartz paper which is a high-temperature, non-deteriorating electrical insulating material and should be especially valuable in use with nuclear units as it is relatively unaffected by radiation. A temperature resistance up to 3000 degrees F. gives it strategic importance as a replacement for asbestos, and it is expected to find use as wrapping insulation on all types of wires, cables, and components used in the radiation field, as well as coaxial cables, magnet wire, and wave guides.

The General Electric Company has discovered a new way of making mica insulation that permits the use of domestic sources of mica for electrical insulating applications. Heretofore most of the mica used has been imported from India because of the inferior quality and high labor costs of domestic production. In making a new product known as Micamat, domestic mica is pulverized and impurities are removed. The key to the development is a special process by which minute flakes are so treated as to generate a force that holds the particles together. The resulting product is a continuous sheet which can be turned out in thicknesses ranging from two-thousandths to six-thousandths of an inch.

Consumers' Price Index

The United States Department of Labor has published a report on the *Consumers' Price Index and Purchasing Power of the Consumers' Dollar, Large Cities Combined and Nine Cities in the North Central Region: 1939 to Date*. Statistics are listed by years from 1939 through 1950 and by months for 1951. The report is available from the United States Bureau of Labor Statistics, Room 312, 226 W. Jackson Blvd., Chicago 6, Illinois.

Vibro-Pump

The invention of a vibrating device said to be a revolutionary new type of pump has been announced by the Drexel Institute of Technology in Philadelphia. Especially suited for use in the chemical, oil, and food industries, the pump has no packing whatever and therefore requires no lubrication. Without valves or bearings, it is so simple that it can be taken apart and cleaned in a matter of minutes. Since it is hermetically sealed, there is no possibility for leakage or escape of fumes, and no contamination of liquids.

Special Coating for Aluminum

The Aluminum Company of America plans to license a process for putting a new hard coating on aluminum. Described as anodic oxide coatings that form an integral part of the metal they protect, the wear-resistant finishes cannot be chipped or flaked off, and the finish is designed for applications where high resistance to abrasion is required. For more information write to Alcoa, 801 Gulf Building, Pittsburgh 19, Pa.

Electronic Printer

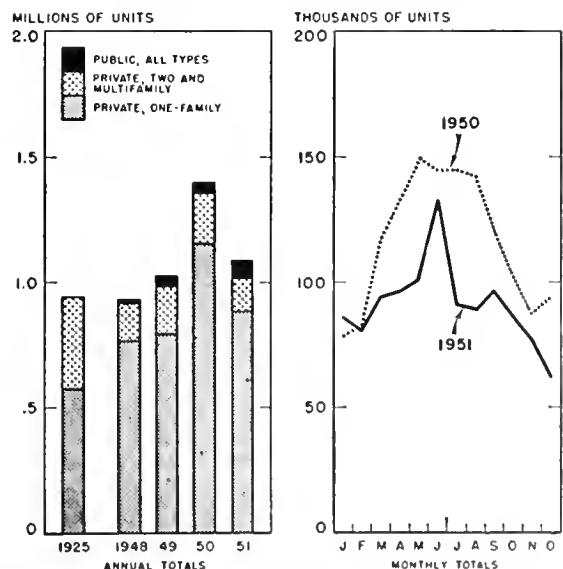
An electronically operated ultra-high-speed printer, capable of printing the entire text of *Gone With the Wind* in two hours from magnetic tape, was recently demonstrated by the Potter Instrument Company, Inc., of Great Neck, Long Island. The unusual line-at-a-time printer is geared to the high speed requirements of electronic computers and 4,000 word-a-minute data handlers. It can also be used as a digital computer and adapted to handle data or coded information transmitted by narrow-channel radio link or telephone and telegraph lines, as well as the serial coded information of magnetic tapes. Although the unit occupies a space about the size of a spinet piano, the company says that its operation keeps pace with room-size giant computers.

Residential Construction

Nonfarm housing starts in 1951 were below 1950, but higher than in any other year, according to an article in the February issue of the *Survey of Current Business*. As shown by the chart, total starts during 1951 were 1.1 million, about one-fifth below the record high in 1950. The decrease was attributed in large part both to direct controls on realty credit imposed later in 1950, and to the tightening of mortgage lending due to money market developments in the past year.

Publicly financed starts increased from 44,000 in 1950 to a postwar high of 71,000 in 1951. A record total of 42,000 public units started in June, largely in anticipation of impending legislative action limiting public housing to 50,000 units in fiscal 1952, accounts for the peak shown in the chart for that month. Private single-family dwellings remained about the same percentage of the total as in 1950, while the proportion of multi-family dwellings declined.

NONFARM HOUSING STARTS



Source: Office of Business Economics, U. S. Dept. of Commerce.

MARKET CHANGES IN THE UNITED STATES

ROLAND W. BARTLETT, Professor of Agricultural Economics

Markets for farm and industrial products used in the United States are dependent primarily upon two factors, population and consumer income. Hence changes in these factors are of vital importance both to agriculture and to urban industry.

This situation stands out in sharp contrast to that of countries in which consumer incomes are very low. In such countries many people live on a subsistence basis, and even large increases in population may result in no substantial increase in the market. Differences in living standards are evidenced in the high consumption of milk, meat, eggs, and other livestock products in the United States as compared with other countries (Chart 1). In 1948-49, people in this country consumed an average of 60 grams of animal protein per person per day. This was double that consumed by people in Europe and ten times the amount (6 grams) consumed by the people in Asia. People in most parts of the world would like to have more animal protein in their diet if they could afford it.

United States Population Increasing Rapidly

Between 1940 and 1950, there was a greater increase in population in the United States than for any previous decade. The Census for 1950 showed a population of 150,697,400, or 19,028,100 more people than there were in 1940 (131,669,300). (Table 1.) The only other decade in the history of the country which approached this was from 1920 to 1930, when the population increase was 17,064,400. This recent increase took place notwithstanding some of the dire prophecies of the 1930's of the approach of a static or declining population in a few short decades. And, since 1950, it has been estimated that population has been increasing at the rate of about 2,500,000 per year. In view of these facts, insofar as population is concerned, both the actual and the proposed increases in farm and industrial production to meet the needs of an expanding market seem to be based upon a solid foundation.

Westward Movement Continues

Granted that the population of the country has in-

TABLE 1. POPULATION GROWTH
(in millions)

Census	North-east	Mid-west	South	West	U. S. ^a
1790.....	2.0	....	2.0	....	3.9
1800.....	2.6	....	2.6	....	5.3
1810.....	3.5	.3	3.5	....	7.2
1820.....	4.4	.9	4.4	....	9.6
1830.....	5.5	1.6	5.7	....	12.9
1840.....	6.8	3.4	7.0	....	17.1
1850.....	8.6	5.4	9.0	.2	23.2
1860.....	10.6	9.1	11.1	.6	31.4
1870.....	12.3	13.0	12.3	1.0	38.6
1880.....	14.1	17.4	16.5	1.8	50.2
1890.....	17.4	22.4	20.0	3.1	62.9
1900.....	21.0	26.3	24.5	4.1	76.0
1910.....	25.9	29.9	29.4	6.8	92.0
1920.....	29.7	34.0	33.1	8.9	105.7
1930.....	34.4	38.6	37.9	11.9	122.8
1940.....	36.0	40.1	41.7	13.9	131.7
1950.....	39.5	44.5	47.2	19.6	150.7

Source: United States *Census of Population*.

^a Because of rounding, detail may not agree exactly with U. S. totals.

creased substantially in recent years, one pointed question is: Where has this increase taken place?

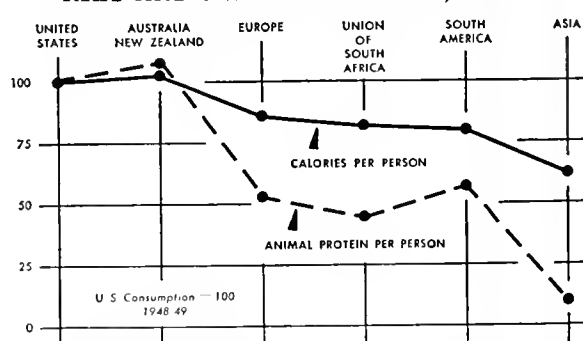
Census figures for 1950 (Table 1) show that the trek westward, which began in colonial days, has been continuing during the past two decades. Large concentrations of shipbuilding and plane factories during World War II gave jobs to thousands of people who, attracted by high wages, went to the West. Because of the favorable climate, during World War II the military forces, particularly the Air Force, located many of the camps in the western states. Thus, many people who had never been West had a chance to learn about that part of the country and, liking it, stayed. In 1950, there were 19,561,500 people in the West, or 64 percent more than in 1930. This increase was over four times that of the Northeast (14.7 percent) and nearly three times that of the country as a whole (22.7 percent). In fact, from 1940 to 1950, 30 percent of the net increase in population were people who settled in the western states.

Looking back, it is interesting to note that it was not until 1850 that the West was counted as part of the United States—that its entire record as a part of the nation has been in the past century.

Next to the West, population in the southern states has increased most rapidly since 1930. In 1950, there were 47,197,000 people in the South, or 25 percent more than in 1930. This rate of increase was nearly double that for the United States. In fact, 29 percent of the net increase in population from 1940 to 1950 for the country as a whole settled in the South. In going through the South today one is impressed by the stir of industrial activity and the increasing emphasis on livestock farming, in place of single crops such as cotton. As in the West, industrial expansion in the South was spurred on by concentration of large governmental expenditures during World War II.

It is natural that expansion would be less in the highly populated and industrialized areas of the Northeast and Midwest than in the West and South. Between 1930 and 1950, the population of the Northeast increased 14.7 percent, and that of the Midwest, 15.2 percent. During World War II, these areas produced a substantial part of the total volume of goods used for war purposes. Much of this production was obtained by cutting off the production of peacetime goods and diverting labor and factories to wartime activities.

Chart 1. PER CAPITA CONSUMPTION OF CALORIES AND ANIMAL PROTEIN, 1948-49



Source: United Nations, *Food and Agricultural Statistics*, September, 1950.

Consumer Incomes Double Prewar

Rapid increases in population which took place in the United States during and after World War II were accompanied by equally rapid increases in disposable income, the income available to consumers after payment of income taxes. In 1950, disposable income in the country averaged \$1,304 per person, or 260 percent of prewar. Cost of living, as measured by the consumer price index of the Bureau of Labor Statistics, in 1950 was 172 percent of prewar. Hence, the net increase in real income per person available for purchases of goods and services was 81 percent. This increase, however, plus the increase of 9 million people meant a combined increase of 78 percent in the purchasing power of the people of the country.

TABLE 2. PER CAPITA DISPOSABLE INCOME, SELECTED YEARS

Year	North-east	Mid-west	South	West	U. S.
1929.....	\$ 907	\$ 673	\$ 393	\$ 749	\$ 659
1933.....	519	330	223	398	356
1937.....	718	544	347	621	539
1941.....	857	699	441	778	669
1945.....	1,246	1,102	775	1,216	1,048
1950.....	1,525	1,388	975	1,468	1,304

Source: Based on data from the *Survey of Current Business*, August, 1951.

While in recent years the West has had the greatest rate of increase in population, during the past two decades the South ranked first in the rate of increase in consumer income. In 1950, disposable income in the South averaged \$975 per person, or 148 percent higher than that of 1929 (\$393). This rate of increase was more than double that for the Northeast during this same period (68 percent) and 50 percent above that for the United States (98 percent).

Another comparison between the South and the Northeast illustrates the trend of higher incomes in the South. In 1929, per capita disposable income in the Northeast averaged 138 percent of that for the United States; by 1950 this had declined to 117 percent. In contrast, per capita income in the Northeast averaged 138 percent of that for the United States; by 1950 this had declined to 117 percent. In contrast, per capita income in the South in 1929 was 60 percent of the national average; by 1950 this had increased to 75 percent.

Thus, while the level of income in the Northeast still remains high, the degree of difference between the average incomes received in different regions has narrowed substantially. In 1950, disposable income in the West averaged \$1,468 per person, or 13 percent above that for the country. During this same year income in the Midwest averaged 6 percent above that for the United States.

Consumer Incomes Higher in Urban Areas

Per capita income is higher in the larger cities than in smaller cities or in rural areas. In twenty important cities in the West in 1950, disposable income averaged \$1,994 per person, or 36 percent above the \$1,468 average for the area as a whole.

In the South, income in 1950 of twenty important cities averaged \$1,554 per person, or 55 percent above the \$975 for the region. The industrial growth of the South was very rapid during and after World War II.

Differences between urban and rural incomes are least

in the Northeast. In 1950, available incomes in twenty important cities averaged \$1,742 per person, or only 14 percent above the average of all people in the region. Urban income in the Midwest averaged 25 percent more than for the region as a whole.

Per Capita Income and Population

Per capita income varies widely from region to region, state to state, and even in different markets within the same state. In 1950, disposable income in Illinois averaged \$1,568 per person, or 20 percent above the average for the country (Chart 2). This figure for Illinois was about 2½ times that of 1935 (\$609 per person).

Seven Illinois cities which had a per capita income of more than \$1,800 were Evanston, Oak Park, Bloomington, Peoria, Champaign-Urbana, Berwyn, and Maywood. Each of these cities is located in the northern or central part of the State.

In Chicago, income averaged \$1,780 per person in 1950, or 14 percent above the average for the State.

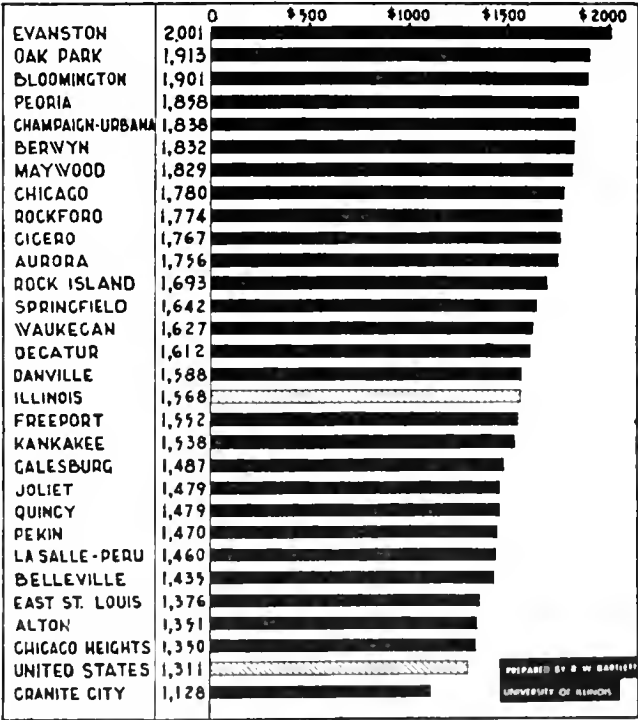
The population in Illinois increased from 7,897,241 in 1940 to 8,712,176 in 1950. This was a rise of 10.1 percent, or slightly less than the increase (14.4%) in the United States in this same period.

In 1950 Champaign-Urbana had 28.5 percent more people than in 1940. This resulted from a large increase in the number of University students and staff and in the number of people supplying them with necessary services.

Six other Illinois markets whose populations increased more than the state average were Kankakee, Decatur, Mattoon, Bloomington, Quad-Cities, and Lincoln.

In 1950, metropolitan Chicago had a population of 5,262,100 people, or 8.8 percent more than in 1940. Much of the population increase in this decade was in suburban areas. Chicago is the second largest city in the United States and, with its high consumer income, affords a substantial market for both farm and industrial products.

Chart 2. PER CAPITA DISPOSABLE INCOME, 1950



Source: *Sales Management*, May 10, 1951.

LOCAL ILLINOIS DEVELOPMENTS

Business activity in Illinois was well maintained during January. Several important indexes were up from the previous month, coal production by nearly 15 percent. Seasonal influences played a large role in the decrease in farm prices and in the substantial drop in construction contracts awarded. Steel operations, at 100.4 percent of rated capacity, produced more than 1,894,000 tons.

Contract Awards at High Level

For the month of January, construction contract awards in Illinois were valued at \$66.6 million, of which about one-third was concentrated in the Chicago industrial area. The 7.8 percent drop from the December level in total contracts let reflected a further decline of 12.8 percent in residential building and a drop of 8.5 percent in nonresidential awards; public works and utilities were off only slightly. Commercial building, up 4.0 percent, was the only large classification to show an increase.

Total contracts awarded in the State during the second half of 1951 were valued at \$495.6 million, more than 3 percent over awards during the last six months of 1950. In contrast, the total for 37 states east of the Rocky Mountains (designated "U.S." in the chart) was off more than 9 percent. Nonresidential and residential awards were down both for Illinois and for the 37-state area. Residential awards were down sharply in the larger area, 17.3 percent; the decrease in Illinois amounted to 5.7 percent.

In Illinois, as well as in the group of states, public works and utilities was the only subgroup showing a rise from the second half of 1950 to the corresponding period of 1951. In Illinois, value of contracts let for such projects was nearly half again as large. Much of the rise in public works and utilities contracts reflected building in the Chicago area; in the second half of 1950 that area reported about 25 percent of total public projects, whereas it accounted for somewhat more than 40 percent during

the latter half of 1951. The value of downstate contracts for public works and utilities construction rose 14 percent.

Prices Down Slightly

Both agricultural and consumers' prices showed minor declines during the month ended January 15. The consumers' price index for Chicago was off fractionally to 194.1 percent of the 1935-39 base, mainly as a result of a 2 percent drop in apparel prices. However, the index was 4.7 percent higher than on January 15, 1951, with rises in foods and miscellaneous items (up 5.5 percent and 5.7 percent, respectively) the chief factors.

Prices received by farmers also dropped fractionally, from 302 percent of the 1910-14 average to 300 percent. The largest declines occurred in food grains, oil-bearing crops, and poultry and eggs. The prices-paid index, which includes interest, taxes, and wage rates, rose from 284 to 287, so that the parity ratio dropped from 106 to 105.

New Plant Sought

Business leaders of southern Illinois are now seeking to have a projected synthetic fuels production unit located in that area. Conversion of coal into oil has aroused considerable interest in the Midwest during the last few years, especially since a pilot plant was started at Louisiana, Missouri. At present the full-scale production project, the cost of which is estimated at \$400 million, is still in the engineering study stage; but a new group, Southeastern Illinois Development, Inc., has been formed to urge its location in the area. Southern Illinois is considered a favorable location since it offers the coal, water, and manpower needed for the conversion plant, which would produce fuels, chemicals, and drugs.

Labor Developments

Several industrial disputes broke out in the State during February, three of them at plants of farm equipment producers. Nearly 200 workers went out on an unauthorized strike at the Peoria Caterpillar factory in a dispute concerning overtime work. In Chicago, 3,000 or 4,000 workers were out in a dispute with International Harvester about work assignments, and an estimated 4,500 stayed off the job at the company's Rock Island Farmall plant as a result of a separate disagreement there.

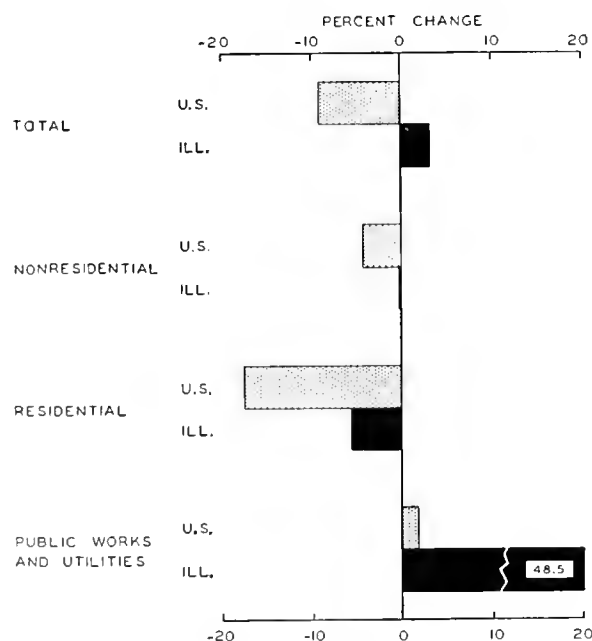
At Joppa, 2,500 construction workers returned to their jobs early in February, following the settlement of a dispute with the company in charge of constructing the power plant for the Paducah AEC unit. The interruption in work was the twentieth on the \$87 million project since work was begun in May, 1951.

Retail Sales

Retail sales for December, 1951, as estimated from retailers' occupation tax data, were slightly above the level of December, 1950. Total sales of \$974.1 million represented an increase of 0.7 percent. The most important advances occurred in sales of general merchandise, food, and eating and drinking places, up 3.2 percent, 5.6 percent, and 5.5 percent, respectively. Sales of furniture, household goods, and radios dropped 4.6 percent from the corresponding month of 1950; automobile sales were down 23.9 percent.

Sales in downstate Illinois were up 1.9 percent, whereas retail sales in Cook County rose only 0.9 percent.

CONSTRUCTION CONTRACTS AWARDED



Source: F. W. Dodge Corporation.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

January, 1952

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS							
ILLINOIS		\$9,620 ^a	938,868 ^a	\$626,927 ^a		\$10,945 ^a	\$11,798 ^a
Percentage Change from	Dec., 1951	-11.2	+4.2	+23.1	-47.2	-4.5	-24.8
	Jan., 1951	-57.1	+0.7	+1.0	-10.3	-6.6	+8.4
NORTHERN ILLINOIS							
Chicago		\$7,434	729,446	\$461,717		\$9,953	\$10,182
Percentage Change from	Dec., 1951	-9.4	+3.8	+23.5	-45.5	-4.7	-23.9
	Jan., 1951	-53.1	-0.3	+0.5	-9.9	-6.6	+8.1
Aurora		\$ 54	n.a.	\$8,649		\$ 44	\$ 84
Percentage Change from	Dec., 1951	-73.3		+15.2	-52.0	+3.5	-32.0
	Jan., 1951	-86.6		-0.8	-12.7	+1.8	+7.2
Elgin		\$ 59	n.a.	\$6,696		\$ 29	\$ 67
Percentage Change from	Dec., 1951	-75.6		+30.6	-54.8	-0.4	-43.5
	Jan., 1951	-20.3		+1.1	-2.0	+0.2	-5.0
Joliet		\$ 84	n.a.	\$12,057		\$ 51	\$ 74
Percentage Change from	Dec., 1951	-47.5		+23.7	-53.8	-3.1	-44.3
	Jan., 1951	-67.4		+10.1	-7.9	+5.6	+17.3
Kankakee		\$ 53	n.a.	\$5,832		n.a.	\$ 31
Percentage Change from	Dec., 1951	n.a.		+31.0	-53.3		-39.8
	Jan., 1951	-79.8		+8.3	-13.5		-0.7
Rock Island-Moline		\$ 398	20,561	\$11,749		\$ 34 ^b	\$ 150
Percentage Change from	Dec., 1951	+44.2	+10.5	+21.1	n.a.	-2.7	-30.7
	Jan., 1951	-35.8	+5.2	+4.2		+3.8	+6.6
Rockford		\$ 184	28,169	\$18,780		\$ 129	\$ 192
Percentage Change from	Dec., 1951	-63.2	+8.1	+20.0	-60.2	-2.4	-28.6
	Jan., 1951	-74.3	+7.2	+3.6	-13.7	+7.2	-0.9
CENTRAL ILLINOIS							
Bloomington		\$ 70	5,952	\$6,160		\$ 51	\$ 103
Percentage Change from	Dec., 1951	+94.4	+4.3	+18.6	n.a.	+5.3	-13.9
	Jan., 1951	+125.8	+11.9	+0.5		-3.6	+12.7
Champaign-Urbana		\$ 77	8,815	\$8,254		\$ 51	\$ 81
Percentage Change from	Dec., 1951	+11.6	+6.3	+15.0	n.a.	+0.8	-36.5
	Jan., 1951	-55.8	+9.9	-0.3		-13.3	+10.7
Danville		\$ 55	7,564	\$7,110		\$ 41	\$ 49
Percentage Change from	Dec., 1951	-22.5	-3.0	+22.7	-55.6	-1.0	-42.4
	Jan., 1951	+1.8	-4.6	+2.1	-8.8	-1.7	+3.6
Decatur		\$ 124	21,155	\$11,348		\$ 83	\$ 96
Percentage Change from	Dec., 1951	-76.6	+7.2	+22.7	-49.4	-2.4	-32.6
	Jan., 1951	-51.8	+6.9	+1.6	-11.8	-14.5	+23.7
Galesburg		\$ 27	6,311	\$4,842		n.a.	\$ 32
Percentage Change from	Dec., 1951	+22.7	+5.0	+24.7	n.a.		-37.0
	Jan., 1951	-48.1	+9.9	-1.6			-6.8
Peoria		\$ 139	49,838 ^c	\$20,768		\$ 186	\$ 211
Percentage Change from	Dec., 1951	-21.0	+8.5	+22.9	-54.7	-8.5	-30.0
	Jan., 1951	-94.5	+0.7	+0.9	-17.2	-22.3	+16.3
Quincy		\$ 78	6,892	\$5,727		\$ 34	\$ 72
Percentage Change from	Dec., 1951	-4.9	-0.6	+22.0	-52.0	+0.2	-23.3
	Jan., 1951	-33.3	-0.1	-2.0	-19.6	-5.8	+16.9
Springfield		\$ 233	25,899 ^c	\$16,211		\$ 91	\$ 228
Percentage Change from	Dec., 1951	+89.4	+1.7	+23.6	-56.5	-2.0	-19.2
	Jan., 1951	-62.7	+11.4	+6.5	+7.5	-1.3	+9.3
SOUTHERN ILLINOIS							
East St. Louis		\$ 483	12,304	\$10,384		\$ 138	\$ 70
Percentage Change from	Dec., 1951	+1,320.6	+4.9	+18.0	n.a.	+6.3	-25.6
	Jan., 1951	+331.2	+5.4	+1.8		-2.7	+66.3
Alton		\$ 26	11,070	\$5,811		\$ 30	\$ 30
Percentage Change from	Dec., 1951	+420.0	+7.0	+25.8	n.a.	-5.1	-35.3
	Jan., 1951	-88.6	-3.3	-1.7		+1.8	+20.7
Belleville		\$ 42	4,891	\$4,830		n.a.	\$ 45
Percentage Change from	Dec., 1951	+31.2	-9.7	+20.1	n.a.		-25.7
	Jan., 1951	-10.6	-1.1	+1.6			+8.5

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for December, 1951, the most recent available. Comparisons relate to November, 1951. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

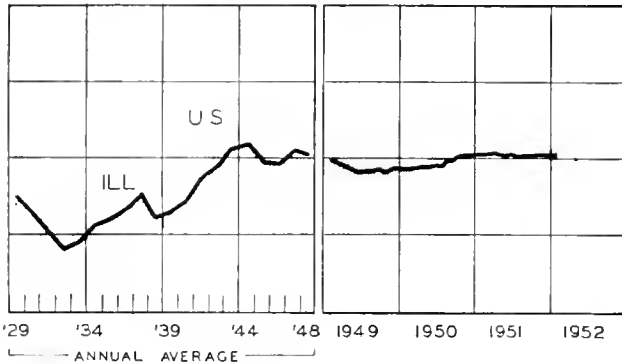
^c Includes immediately surrounding territory.

n.a. Not available.

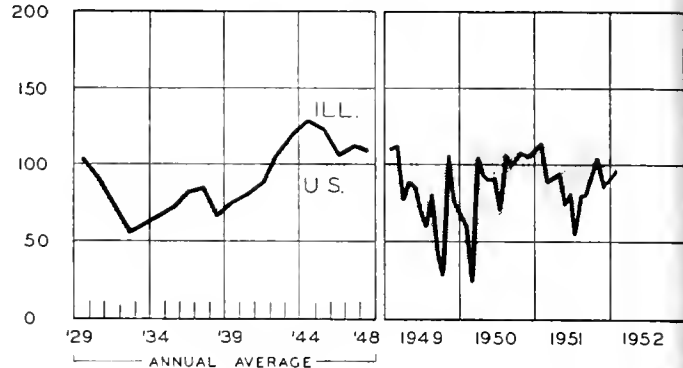
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

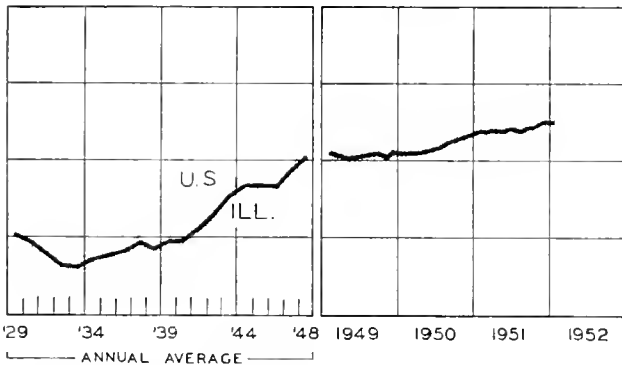
EMPLOYMENT - MANUFACTURING



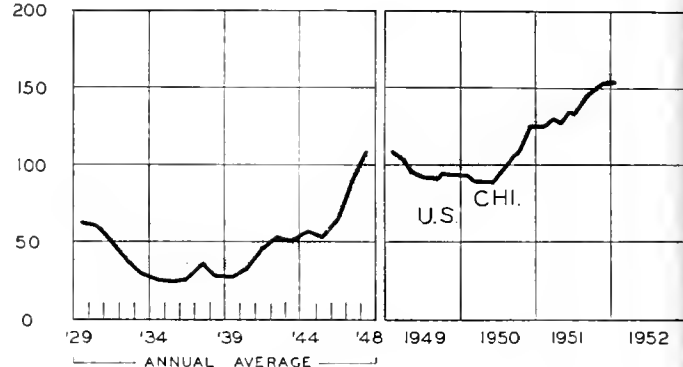
COAL PRODUCTION



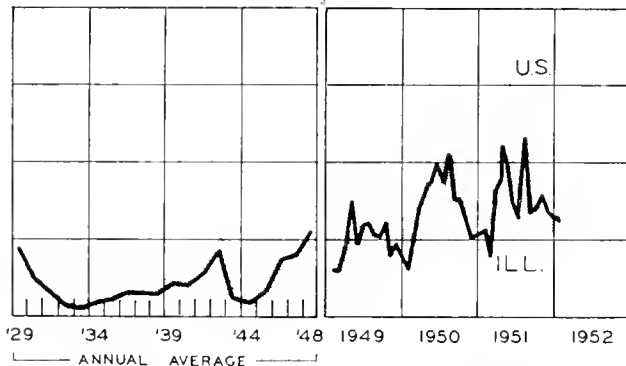
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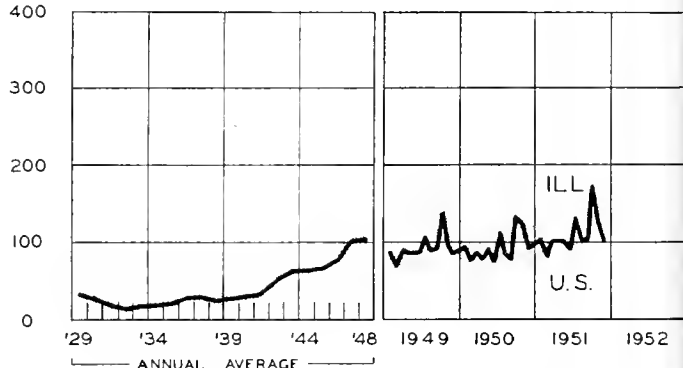
BUSINESS LOANS



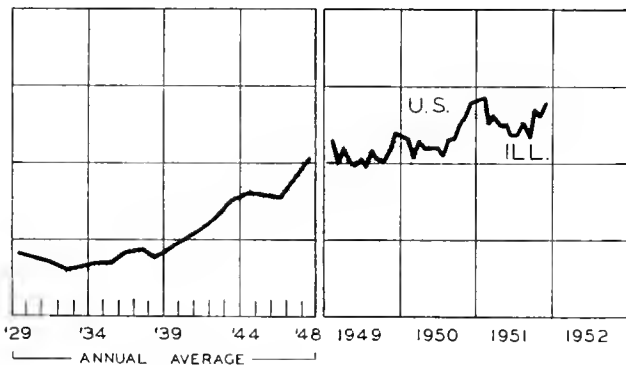
CONSTRUCTION CONTRACTS AWARDED



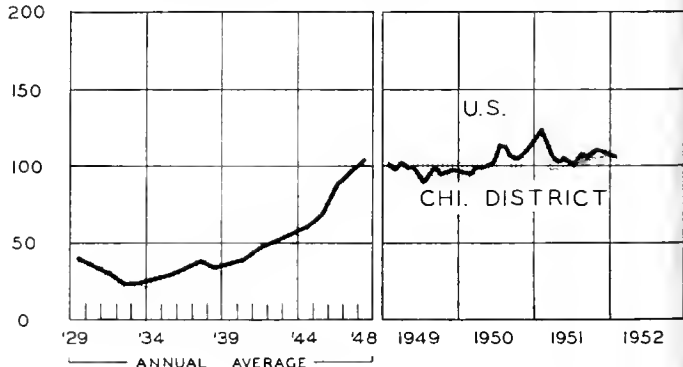
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



* Illinois figures being revised.

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

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HIGHLIGHTS OF BUSINESS IN MARCH

Industrial production may be on the rise once more. After remaining almost stationary between 216 and 218 percent of its 1935-39 base from last August through December, the Federal Reserve index of industrial production climbed to 220 in January and to 222 in February and March.

The rapidly increasing output of military goods served as a substantial stimulus to industrial production, as virtually all of the increase in the index was the result of expanded production of durable goods. Automobile assemblies were up sharply and output of steel, nonferrous metals, and lumber increased. Automobile output in March totaled about 375,000 cars and 108,500 trucks, the best month's output since last October. Activity in soft goods continued slow, however, with production in March declining again after a slight rise in February.

Pickup in Military Production

Military production is rising rapidly, according to the latest report of the Director of Defense Mobilization. Deliveries of all military goods totaled \$6.9 billion in the first quarter of 1952, a gain of about 38 percent over the previous quarter. This is approximately two-thirds of the way to the peak rate of \$10 billion per quarter scheduled for the end of the year. It is expected that this peak rate will be maintained during 1953 and 1954, the "years of the mobilization plateau."

The report emphasizes that the slowness of the mobilization program has not been caused by lack of materials or capacity but primarily by the speed of obsolescence of existing models. For this reason, continual compromises had to be made between volume production of new models and postponement of production until improved models were available. In many instances, the decision was to await the development of the newer weapons, and it is only now therefore that production is really getting under way on these latest models—the B-47 jet bomber, the newer version of the F-86, tanks with improved turret mechanisms, and others.

Construction at Record for March

The oncoming of spring, together with the easing of restrictions on private nonessential building, appears to have provided a substantial stimulus to construction activity. Outlays for new construction in March attained a record for the month of \$2.2 billion, 13 percent above the

February level. Although military and other defense projects continued to be the mainstay of the construction boom, a substantial increase in private home building was registered in the month. At \$784 million, residential building exceeded the February figure by 17 percent, though still below the March, 1951, record.

For the first quarter of 1952 as a whole, total construction activity aggregated \$6.4 billion, slightly above that of the first quarter of last year. Public construction was up 26 percent and private industrial construction 52 percent.

Unemployment Down

The number of people unemployed and actively looking for work in March declined 14 percent to 1.8 million; this is the lowest level for the month since World War II. Most of the drop was accounted for by the withdrawal from the labor force of women who had been seeking work the previous month.

Total employment, at 59.7 million, remained unchanged from the February level, though slightly below that of March, 1951. Unfavorable weather conditions restricted farm activity and the late date of Easter delayed the usual pre-holiday expansion of trade activity. Nevertheless, nonfarm employment, at 53.7 million, was at much the same level as in March of last year, and farm employment, at 6.0 million, only slightly lower.

Increased Capital Expenditures, Sales Expected

Continuation of the record expansion rate of American industry is in prospect, according to the latest government survey of capital outlays. American business exclusive of agriculture plans to spend \$24.1 billion this year for new plant and equipment, 4 percent over the 1951 high. The largest increases are expected by durable-goods manufacturers, up 16 percent, and nonrail transportation, up 19 percent. The electrical machinery, transportation equipment (excluding motor vehicles), and rubber industries each contemplate expanding their capital outlays by one-third or more.

Business is also optimistic on its sales prospects in 1952. Mining concerns expect the largest increase, 11 percent, and utilities and nonrail transport companies expect to better their 1951 sales by 10 percent on the average. Manufacturers anticipate a 5 percent rise in sales, with a somewhat greater increase for durable goods.

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Open Season on the Income Tax

This is the time of year when thoughts turn to the subject of taxes. Anyone who has had to file an income tax return will understand why.

A year ago we pointed out on this page some of the fallacies of thinking in terms of "Pay as You Go" or other formulas that regard the tax take as being potentially unlimited. Since then, taxes have been raised further, the increases taking effect last November.

Originally the income tax was thought of as a truly equitable form of taxation. It was confined to those who were clearly able to pay and rates were set well within the limits of ability to pay. Now, all that is changed. Everyone who earns anything even approaching a bare subsistence is required to pay. Since the war, exemptions have been kept low; and with the inflation of living costs, they are now well below the emergency wartime level. Also, there is increasing awareness that it pays to look for loopholes, and the exploitation of avoidance devices is becoming ever more widespread.

Inequities of Tax Avoidance

The average person who looks at the table of surtax rates, while griping about his own tax bill, takes some satisfaction in the fact that he doesn't come in further down the schedule, where the rates are "really high." There is a growing realization, however, that these rates are in large measure fictitious, and that the rise in effective rates is not nearly so steep as the tax table seems to indicate.

Income-splitting is one of the oldest and best known devices used to avoid the highest rates. This is now made part of the law. In the provision for joint returns by husband and wife, and to a lesser extent for heads of households, part of the benefits from this device are given to the lower and middle income brackets. Yet, this provision has by no means eliminated the earlier methods of accomplishing the same end — by giving earning assets to various members of the family and by setting up trust funds for their benefit.

Another reason rates aren't really as high as they look is the very favorable treatment given capital gains. Half of the gain realized on any capital asset held over six months is excluded from income, thus cutting the tax in half; and for persons in the highest brackets, a maximum rate of 26 percent is applied, thus cutting it almost in half

again. This has led to the use of a variety of tricks designed to convert ordinary income into capital gains. Recent changes in the law have attempted to prevent this but it is likely to be a continuing problem.

There is increasing evidence also of actual tax evasion — such as forgetfulness in reporting income, or even downright chiseling, on the part of individuals whose income is not a matter of record. There is the farmer who not only deducts a good part of his living costs as business expense but fails to report the "hogs sold for cash" because there is no record of the transaction. There is the merchant who supplies family needs from store stocks. There is the doctor who accumulates thousands of dollars in a secret hoard known only to himself. In fact, anyone who received income in cash, particularly in small amounts, may be able to get away with reporting something less than he receives.

Reports of all these ways in which the other fellow gets off easy, and of connivance on the part of enforcement officials, feed the resentment of those who are unwilling or unable to exploit the possibilities of evasion. Among the latter are the largest group of taxpayers — the wage and salary workers whose incomes are fully reported and subject to withholding by employers. More and more, people are leaning to the view expressed in mild sarcasm by a prominent lawyer, "It is the duty of every American to pay as little income tax as possible."

What Needs to Be Done

In presenting the budget last January, President Truman requested new taxes in the amount by which last year's legislation fell short of his recommendations — approximately \$5 billion. It is said that this request was not really wholehearted, and that no action on it can be expected in an election year.

However, the President did couple his request with a plea to close the loopholes. He said, "Glaring injustices in our tax laws should be eliminated before those with modest means are asked to shoulder additional burdens."

There is, in other words, a way to get needed funds without further burdening the large majority of the people. In view of growing public disillusionment, it is not just a way of getting more taxes, it is highly important as a way of maintaining the taxes we have. It is not a proposal to be shunned in an election year; rather, the statesman who is willing to fight for it will have the public seeking his name on their ballots.

It is sometimes said that the loopholes have the effect of making our high surtax rates palatable, that they help us kid ourselves into thinking that our tax system is really tough. With this cynical view we cannot agree. If the highest rates are really confiscatory, and destroy incentives, they should be corrected in the legislation, not in loopholes and evasion. The least we can do is be honest enough to recognize just who is paying how much, and make the tax system look like what it actually is.

It is also suggested that the problems of improving the income tax are so great that we should do better to turn to other taxes. Specifically, the so-called "painless" sales taxes are said to offer the best way out. Even apart from the fact that this is basically a proposal to make our Federal tax system as regressive as our state and local taxes, it is mistaken. Sales taxes are not painless when they are made high enough to carry a large revenue load — as, for example, by being raised to 15 or 20 percent. An illustration of what can happen is provided by today's

(Continued on page 6)

SIGNS AND ADVERTISING DISPLAYS

Products of the sign and advertising display manufacturing industry range from the spectacular electrical giants found in metropolitan areas to the small display cards that appear in store windows. In between are all sizes of electric and nonilluminated signs for store fronts and windows, and various types of interior display pieces. The industry also produces such non-advertising material as highway and street signs.

Signs and displays can be made in small lots for use by single-unit stores, or produced on a quantity basis and distributed to retail outlets of large concerns. Quite often, both types are found in the same store when a retailer handles some nationally advertised line of goods and the advertiser supplies brand-name signs and display material to supplement the merchant's individual advertising program.

The Industry in Illinois

Illinois is a leading state in the manufacture of all types of signs and displays. With a total value of product exceeded only in New York and Ohio, Illinois firms in the industry produced \$28 million worth of signs and displays in 1947. The 154 sign and display manufacturers in the State employed 3,500 of the industry's 28,800 workers.

Distribution of sign manufacturing follows the location of retail business very closely, since the vast majority of signs and displays are used for advertising purposes. In the large cities there is a tendency for firms to manufacture only a few types of signs and displays, whereas in the smaller communities they must be more versatile and produce a wide variety for local use.

Since Chicago is the national headquarters of many of America's largest merchandising and manufacturing concerns, which buy millions of dollars worth of advertising materials for their retail outlets, there is a large concentration of sign and display manufacturers in the metropolitan area.

Illinois is also an important center in the manufacture of merchandise presentation materials such as mannequins, artificial flowers, paper, and fabric for back-grounds, and all types of cases, fixtures, and interior equipment for merchandising and window display. Although approximately 115 manufacturers of these materials (16 of them in Illinois) are classified in a separate industry, with an annual volume of about \$800 million, their products are closely related to the field of signs and advertising displays.

Flexible Advertising Media

Signs and displays, whether for inside or outside use, can be placed in the areas where the advertiser's market is located and so are especially useful to manufacturers without national distribution.

Products of the sign and display industry may be either electrical, mechanical, cut-out, or plate. They do not include printed posters or painted signs. Often it is difficult to draw a line between signs posted outdoors

and "outdoor advertising," a term generally applied to structures on which advertisements are either painted or posted by the companies owning the billboards. The smaller manufactured signs that appear along the highways are usually purchased outright by advertisers and are erected by them or by companies specializing in this work.

An important part of most advertising programs is point-of-purchase displays in the retail store. Window and store displays not only stimulate impulse purchases, but serve to remind shoppers of the sales messages and themes of other national or local advertising.

Displays are widely varied from window streamers to the permanent type of counter and store display. Investment in these point-of-purchase materials represented only about 10 percent of the total sales volume of advertising in 1949, but recently visual merchandising's share of the total sales promotion dollar in American stores has been growing. More and more signs and posters are serving as silent salesmen, as the cost of using other media increases and rising overhead expenses make it essential that every square foot of sales space pay its way.

New Products and Processes

Many of the large companies in the industry started before 1900 as sign-painting establishments, then followed the trend to electric lamp signs, and finally to the currently popular luminous tube signs.

In addition to the wood, metal, and cardboard conventionally used by the industry, new materials developed during the war have been incorporated into the sign and display field, effecting some striking improvements.

The use of plastics has greatly increased during the past few years. One interesting development is described as a process of lithographic printing on a sheet of plastic which later is pressed into three-dimensional form. Liquid plastics are being used to produce a glasslike weather-proof surface on colored lithographic work.

Almost 30 percent of the industry's sign and advertising display production in 1947 was in luminous tubing and bulb signs. Research on electrical products has developed a method of causing entirely different displays to fade in and out in the same spot by using mirrors.

Considerable dramatic effect has been achieved by using fluorescent materials which emit a glow when activated by ultraviolet rays of invisible "black" light. Blacklight window displays and point-of-purchase merchandising units have proved traffic stoppers, and for outdoor use, blacklighted billboards are proving as effective as electric spectaculars at only a fraction of the cost.

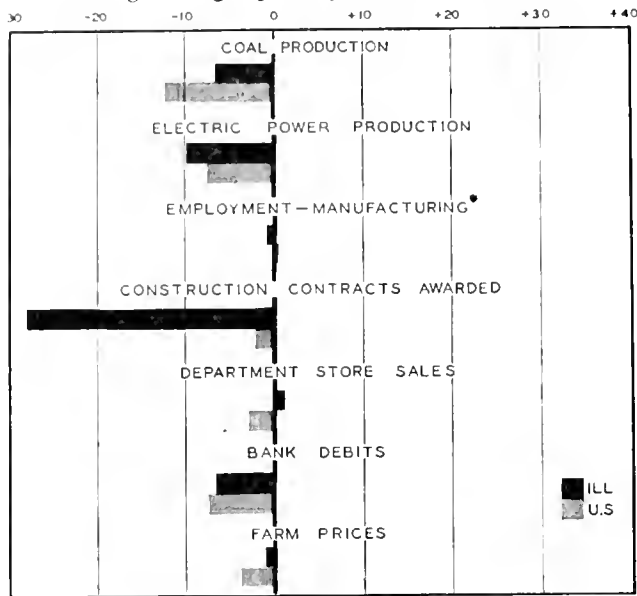
The ever-widening variety of the industry's products has been accompanied by expanded facilities. Between 1939 and 1947 the addition of 600 firms raised the total number of companies in the nation to 1,980, while value of products shipped rose from \$88 million to \$206 million, an indication of the trend toward the increasing use of signs and displays since the end of World War II.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes January, 1952, to February, 1952



*December, 1951, to January, 1952

ILLINOIS BUSINESS INDEXES

Item	February 1952 (1947-49 = 100)	Percentage Change from	
		Jan. 1952	Feb. 1951
Electric power ¹	129.2	- 9.9	+ 3.2
Coal production ²	90.2	- 6.8	+ 0.8
Employment—manufacturing ³	104.3	- 0.6 ^a	- 0.9 ^b
Payrolls—manufacturing ³	n.a.	.....	.....
Dept. store sales in Chicago ⁴	105.5 ^c	+ 0.8	- 8.2
Consumer prices in Chicago ⁵	112.8 ^d	- 1.1	+ 1.8
Construction contracts awarded ⁶	90.1	-28.2	+13.3
Bank debits ⁷	117.3	- 6.3	+ 8.9
Farm prices ⁸	115.3	- 1.0	- 5.4
Life insurance sales (ordinary) ⁹	110.7	+ 1.7	+ 7.9
Petroleum production ¹⁰	86.9	- 9.8	+ 9.6

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a December, 1951, to January, 1952. ^b January, 1951, to January, 1952. ^c Seasonally adjusted. ^d On 1935-39 base, the index was 191.9. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	February 1952	Percentage Change from	
		Jan. 1952	Feb. 1951
Personal income ¹	257.0	-0.1	+ 5.8
Manufacturing ¹.....	.....	.....	.....
Sales.....	276.0 ^a	+2.7	+ 3.3
Inventories.....	42.0 ^{a, b}	-0.5	+21.2
New construction activity ¹.....	.....	.....	.....
Private residential.....	8.0	-7.6	-19.6
Private nonresidential.....	8.6	-5.1	+ 3.3
Total public.....	7.1	-8.9	+31.7
Foreign trade ¹.....	.....	.....	.....
Merchandise exports.....	15.9	+6.5	+23.4
Merchandise imports.....	10.7	-3.2	- 2.0
Excess of exports.....	5.2	+40.0	+162.7
Consumer credit outstanding ².....	.....	.....	.....
Total credit.....	19.8 ^b	-1.8	+ 1.2
Installment credit.....	13.2 ^b	-0.8	+ 1.0
Business loans ²	21.2 ^b	-0.6	+12.9
Cash farm income ³	24.1	-23.3	+ 7.3
Industrial production ².....	.....	.....	.....
Combined index.....	120 ^a	+0.9	+ 0.5
Durable manufactures.....	132 ^a	+1.1	+ 4.8
Nondurable manufactures.....	110 ^a	+0.5	- 5.5
Minerals.....	114 ^a	-0.6	+ 5.1
Manufacturing employment ⁴.....	.....	.....	.....
Production workers.....	104 ^a	0.0	- 2.9
Factory worker earnings ⁴.....	.....	.....	.....
Average hours worked.....	102	-0.2	- 0.2
Average hourly earnings.....	123	-0.1	+ 4.9
Average weekly earnings.....	126	-0.4	+ 4.7
Construction contracts awarded ⁵	116	-1.9	-22.4
Department store sales ²	105 ^a	-2.8	- 8.7
Consumers' price index ⁴	112 ^c	-0.6	+ 2.2
Wholesale prices ⁴.....	.....	.....	.....
All commodities.....	113	-0.4	- 3.3
Farm products.....	108	-2.0	- 8.0
Foods.....	110	-0.4	- 2.8
Other.....	114	0.0	- 2.5
Farm prices ³.....	.....	.....	.....
Received by farmers.....	107	-3.7	- 7.7
Paid by farmers.....	111	+0.4	+ 3.4
Parity ratio.....	100 ^d	-4.8	-11.5

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ^a Seasonally adjusted. ^b As of end of month. ^c On 1935-39 base, 187.9. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1952					1951
	Mar. 29	Mar. 22	Mar. 15	Mar. 8	Mar. 1	Mar. 31
Production:						
Bituminous coal (daily avg.).....thous. of short tons.....	1,635	1,593	1,628	1,653	1,715	1,710
Electric power by utilities.....mil. of kw-hr.....	7,263	7,354	7,414	7,497	7,416	6,767
Motor vehicles (Wards).....number in thous.....	124.0	116.5	112.3	107.2	111.4	175.0
Petroleum (daily avg.).....thous. bbl.....	6,304	6,324	6,306	6,321	6,267	5,957
Steel.....1935-39 = 100.....	238.7	238.3	236.9	235.7	234.8	231.8
Freight carloadings.....thous. of cars.....	725	720	709	714	756	755
Department store sales.....1935-39 = 100.....	292	273	260	254	245	258
Commodity prices, wholesale:						
All commodities.....1947-49 = 100.....	111.7	111.8	111.6	112.6	112.6	116.5
Other than farm products and foods.....1947-49 = 100.....	113.0	113.2	113.1	114.3	114.3	117.3
28 commodities.....August, 1939 = 100.....	300.3	304.0	304.3	305.4	307.4	378.6
Finance:						
Business loans.....mil. of dol.....	21,364	21,469	21,233	21,155	21,157	19,202
Failures, industrial and commercial.....number.....	164	181	156	170	163	136

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Rises

Steel production was maintained during March at 102 percent of rated capacity, 2,119,000 net tons weekly. Passenger car output averaged in excess of 88,000, and about 26,000 trucks were turned out each week. Total automotive production for March was estimated at 360,000 vehicles, and output for the first quarter at 978,000, nearly 30,000 vehicles under the quota set earlier.

Output of consumers' durables except automobiles rose sharply from December to January, and remained high during February. FRB data show production at 109 percent of the 1947-49 average after seasonal adjustment. The January-February level was the highest since May, 1951. Sharp increases from December to January in radio and TV output were among the important factors in the better showing made during the first two months of 1951. Since the shortage of scarce materials appears to be easing, it is expected that the present rate of production of consumers' hard goods will at least be maintained or even increased somewhat during coming months.

Automobiles and other consumer durables were the only large categories which showed declines in tons of steel obtained during 1951 as compared with 1950. Other groups, including construction, rail transportation, petroleum, machinery and equipment, and the armed services, obtained more steel than in 1950.

Manpower Requirements Rising

The defense program and the expected increase in civilian production will probably require the addition of 3.5 million workers to the labor force by the end of 1953, according to a recently published study by the Bureau of Labor Statistics. Of this number, 3.0 million will be needed for defense work. Expanded defense requirements can be met by shifts from nondefense to defense produc-

tion without shifts in place of employment, by small decreases in unemployment, and by a somewhat larger than usual increase in the labor force. By 1953, however, the emphasis will fall on the recruitment of "extra" workers — mainly women who would not normally take jobs, and older people who have retired or are reaching retirement age. In arriving at these estimates, the BLS assumed that there will be gains in productivity as tooling-up progresses and mass production of defense items gets started, and that there would be only a slight lengthening of the manufacturing workweek.

Small Changes in Employment

The Bureau of the Census report on the labor force for March indicates few changes. Total employment fell slightly as a decline in agricultural work was only partially offset by an increase in the number of workers with nonfarm jobs. Unemployment was at the lowest March level since the end of World War II.

During the past three years nonfarm employment has been gaining fairly consistently, drawing partly on farm labor and partly on the unemployed for additional workers. In March, the monthly total of nonagricultural employment dropped below the corresponding month of the previous year for the first time in more than three years, but only slightly. (See accompanying chart.)

Labor force data, in thousands of workers, are as follows:

	March 1952	February 1952	March 1951
Civilian labor force	61,518	61,838	62,325
Employment	59,714	59,752	60,179
Agricultural	6,012	6,064	6,393
Nonagricultural	53,702	53,688	53,785
Unemployment	1,804	2,086	2,147

Labor unrest continued to mount throughout March, but only one important stoppage actually occurred during the month — a four-day walkout by the railway operating brotherhoods on the New York Central and Illinois Terminal systems.

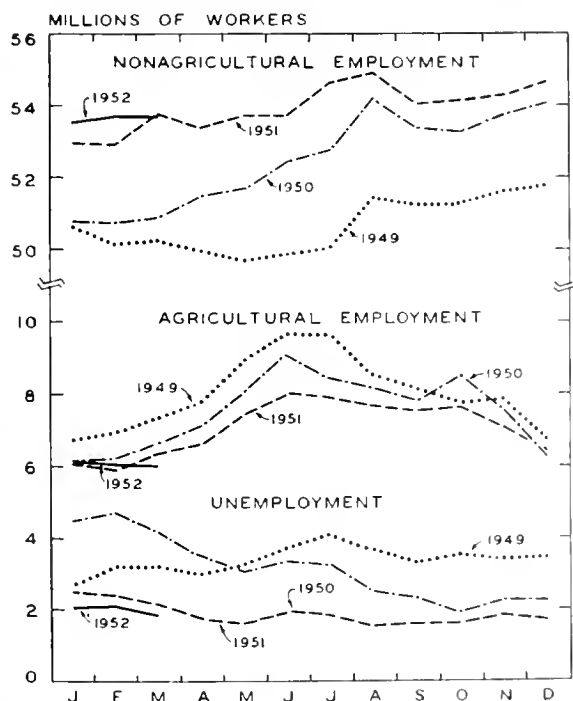
The threatened strike by steel workers continued to overshadow other developments as prolonged negotiations failed to produce any satisfactory settlement. The walk-out was forestalled at the last minute by government seizure of the mills on April 8. Early in April also, telephone and telegraph communications were interrupted as members of the Commercial Telegraphers Union went out on strike against Western Union, and Western Electric telephone installation workers and some operators walked out in various parts of the country.

Capital Expenditures Maintained

Capital expenditures during the second quarter, estimated at \$6.1 billion, will be maintained at the first-quarter level. After seasonal adjustment, the first and second quarter rate of investment was higher than that for the fourth quarter of 1951, when actual dollar outlays amounted to \$6.7 billion. The total for manufacturing remained unchanged at \$3.1 billion, increased expenditures by nondurable-goods industries offsetting cuts by firms producing durable goods. Mining, transportation, and utilities showed small increases; commercial and miscellaneous firms expect to spend somewhat less on new plant and equipment during the second quarter.

For the year as a whole, business firms anticipate expenditures of \$24.1 billion, 4 percent more than in 1951 in dollar value of new capital goods. With prices rela-

EMPLOYMENT AND UNEMPLOYMENT



Source: Bureau of the Census.

tively stable, the increase over 1951 in physical volume will also amount to nearly 4 percent. Manufacturing firms, accounting for one-half the total, plan investments of \$12.1 billion for the year, 8 percent higher than in 1951. Most of the planned increase reflects higher expenditures by durable goods industries, which anticipate an advance of one-sixth over last year. Spending by producers of soft goods will rise only 2 percent.

Rise in Housing Starts

The Bureau of Labor Statistics has reported that new housing starts during February rose 13 percent over January to 77,000 dwelling units. Part of the increase may be attributed to seasonal factors, but the BLS also cited an easing in the building supply situation. The rise occurred entirely in private home building; government construction of dwellings was off during the month. Even though starts were 4,000 to 6,000 below the February levels of 1950 and 1951, they remained considerably above that month's level for earlier postwar years. Originally, 800,000 new starts was set as the probable maximum number of dwellings for which supplies would be available this year; but by March, it appeared that materials would be plentiful enough to raise that number appreciably.

Sales Rise Continues

Seasonally adjusted manufacturers' and retail sales rose again during February. Manufacturers' sales were up 3 percent over January to \$23.0 billion. By far the larger portion of the increase appeared in durable-goods sales, where rises were general. Sales of nondurables were up only slightly. Retail sales advanced by 2 percent to \$12.9 billion; a small decline in sales of soft goods was more than offset by a 6 percent gain in sales of durables.

Seasonally adjusted manufacturers' inventories dropped back to \$42.0 billion from the \$42.2 billion level of January. At the end of February, stocks of durable goods were a third larger than at the end of February, 1951; nondurable-goods inventories were up by 10 percent. Last

year's downward adjustment of inventories was confined mainly to nondurable goods. Even though increases continued to appear in the book value of stocks, the rise in nondurables during the second half was very small compared with that in durables. Changes in dollar values are as follows:

	Millions of dollars	
	1st Half 1951	2nd Half 1951
Durable goods.....	3,538	2,705
Purchased materials.....	912	912
Goods in process.....	1,359	1,030
Finished goods.....	1,267	763
Nondurable goods.....	2,235	245
Purchased materials.....	805	-286
Goods in process.....	354	150
Finished goods.....	1,077	380

According to the Department of Commerce, manufacturers' stocks are no longer excessive in relation to sales. By the end of 1951, the over-all inventory-sales ratio only slightly exceeded that of 1948 and 1949. The ratio for consumer goods, however, was considerably above that of the earlier period, whereas the ratio of stocks to sales in defense and capital goods was lower.

At the retail level, the inventory adjustment has taken the form of substantial cuts in the value of stocks, rather than a slowing of the rate of addition. As shown by the accompanying chart, inventories were reduced from the May, 1951, high of \$20.6 billion to \$18.1 billion at the end of January, 1952. During the same period, monthly sales remained between \$12 billion and \$13 billion, and the ratio of total stocks to total sales leveled off and then dropped. The ratio for nondurables has been comparatively steady, whereas that for durables has fallen considerably from the mid-1951 peak. The drop reflects chiefly cuts in the swollen inventories accumulated during the earlier period of scare-buying of durable consumer goods.

Open Season on the Income Tax

(Continued from page 2)

vast bootlegging to avoid the excise tax on liquor. Illicit production and distribution are the means by which sales taxes can be evaded; they are means that waste resources and are far more threatening to domestic peace and order.

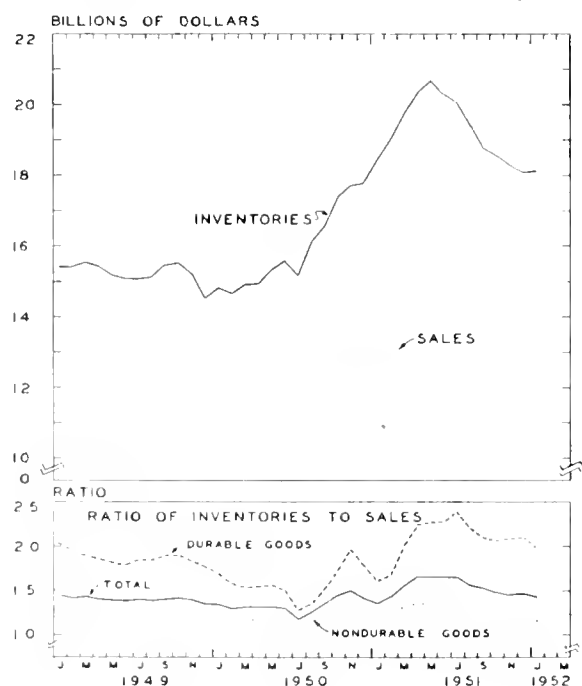
Our economic future will be best served by unwavering recognition that the income taxes are still our best taxes. When they are endangered by inequities and evasions, there is no satisfactory alternative to tightening them in ways that will eliminate the threat.

One requirement for this is legislation in the public interest. Another is enforcement strict enough to make almost everyone carry his share of the burden; and to organize effectively for this, there must be adequate appropriations and a sincere effort to create conditions that will encourage honest men to do the job. Congress, however, seems to move at times in the opposite direction. It seeks to gain petty political advantage by granting special favors and by attacking the government service to the point where good men refuse to participate in it.

Under present conditions, the citizen who pays his due, perhaps with a little grumbling, can hope for no better result than a realization of the sound objectives of the income tax. All that needs to be done is to make it work the way it should. Coupled with reasonable restraint in commitments for government expenditures, this would go far toward easing the problems of government finance.

VLB

RETAIL SALES AND INVENTORIES



Source: U. S. Department of Commerce.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Community Economic Expansion

The United States Department of Commerce has announced publication of a bulletin designed to help local officials seeking to expand or diversify industries in their communities. Entitled "Locating Industrial Prospects for Your Community," it suggests places which are likely to receive early news of industrial plans for new plant location. It lists sources of published information, steps to take in preparing a list of industrial prospects, techniques for selecting and organizing a committee of local businessmen to undertake the necessary work, and specific tasks to be undertaken by such a committee. The bulletin points out that no government agency nor any other known organization has available lists of firms considering the establishment of new plants, since that type of information is usually kept confidential as long as possible. The publication is available at 5¢ a copy from Distribution Services, U. S. Department of Commerce, Washington 25, D.C.

Nickel-Coated Aluminum

A process which gives aluminum the hardness and corrosion-resistance of nickel has been announced by the United Aircraft Corporation, East Hartford, Conn., and Bart Laboratories Company, Inc., Belleville, N.J. The new nickel-coating process is said to open many new uses for aluminum, and it has already been of major importance in protecting duralumin propeller blades from the pitting and eroding effects of spray thrown up in sea landings and take-offs. The essential element is a synthetic rubber compound used to establish a bond heretofore unattainable between the aluminum and the nickel plating. The bond material is sprayed onto aluminum and after drying the piece is plated with nickel by conventional means. The finished pieces stand up under a wide range of temperature and have a semi-bright surface which can be polished chemically or mechanically to a high luster.

Loading Area Surface

A new type of steel roadway for loading areas is being produced for industrial plants by the Irving Subway Grating Company of Long Island City. The roadway, which is said to require little or no maintenance, is an open-mesh steel grating with a 3½ inch spacing between bars, similar to the portable airfield landing mats produced by the company in World War II. After four years of daily testing under maximum truck-loading conditions and on filled-in ground unsuitable for concrete surfacing, the roadway area remained as solid as the day it was laid. It has never been repaired and the ground has not sunk under the heaviest vehicles.

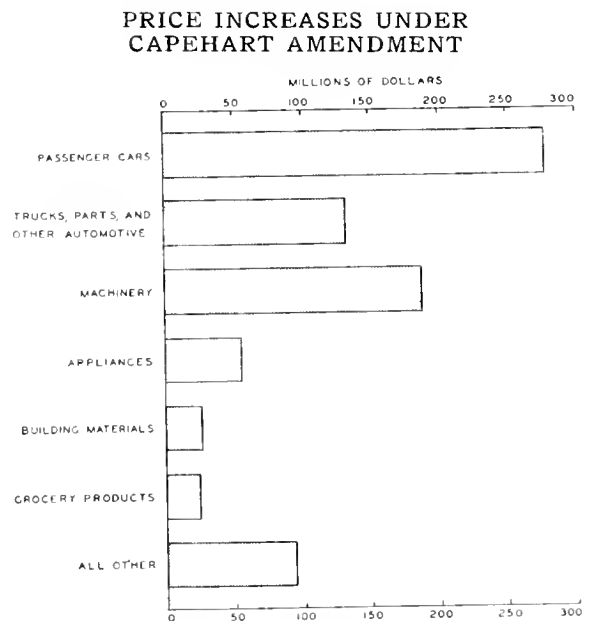
Government Procurement

Publication of a revised edition of the Government Procurement Manual, described as the only source of information in the Federal government covering the procurement activities of all major military and civilian agencies, was announced recently by the Department of Commerce. In its revised form it contains a military

agency and a civilian agency index and a listing of the locations of the appropriate procurement offices, as well as a list of 5,000 items and classes of items for which Federal agencies are in the market.

Defense Mobilization

"Strength for the Long Run," the final quarterly report of Charles E. Wilson, former Director of Defense Mobilization (Superintendent of Documents, U. S. Government Printing Office, Washington 25, D.C., 35¢), describes the present mobilization pattern, discussing military products, industrial expansion, and materials supplies. In a section on economic stabilization, Wilson points out that many products have benefited from the upward adjustments of about 3 percent in ceiling prices necessary to meet the conditions of the Capehart amendment which allowed for rising costs. Through the first quarter of 1952 OPS received from about 1,700 manufacturers more than 7,000 applications for adjustments in price and is currently receiving over 100 applications a week. OPS estimated that the Capehart increases already granted to manufacturers will amount to over \$800 million a year. As shown by the chart, about one-third of this sum represents increases granted on new passenger automobiles and the remainder is largely accounted for by increases on such other metal-using products as machinery, automotive parts, and some consumer durables.



Source: Office of Defense Mobilization.

Heat Absorbent Glass

A new greenish-tint glass named "Solex" is said to absorb the sun's heat, reduce eyestrain, and keep fading and bleaching of curtains and other fabrics to a minimum. Made by the Pittsburgh Plate Glass Company (632 Duquesne Way, Pittsburgh, Pa.), the new type glass is expected to replace much of the colorless glass now being

(Continued on page 9)

WHERE NEXT IN MONETARY POLICY?

RAYMOND H. McEVROY, Assistant Professor of Economics

A hard choice has faced our monetary authorities in each period of inflation since World War II. With a public debt of over \$250 billion on which annual interest charges of over \$5 billion must be paid, and with some \$50 billion of government securities maturing and being refunded annually, it has been felt important for the Federal Reserve Banks to purchase government securities on the open market whenever necessary in order to assure successful flotation of new Treasury issues at low rates of interest. When the Federal Reserve purchases securities the effects are to create new money and at the same time to augment the reserves of the commercial banks, making possible further expansion of bank loans and the money supply. These effects, which would be very good monetary medicine for a depressed economy, are fuel for the fires of inflation.

Appropriate monetary policy in an inflationary period would involve Federal Reserve sales of government securities on the open market, in order to reduce bank reserves, bank loans, and the money supply. Yet such sales would also weaken the markets for government securities, tending to push up the rates of interest which the Treasury would have to pay on new issues. Moreover, and herein lies the real dilemma, it is precisely in periods of inflation that the public and financial institutions are most tempted to sell their holdings of government securities, causing downward pressure on the prices of such securities. For when the general level of prices is rising, profitable alternative uses of funds (such as holding larger inventories) encourage businesses to dispose of low-yielding government securities, and profitable private lending opportunities encourage banks and other financial institutions to do likewise. Thus in a period of inflation the Federal Reserve authorities must either buy government securities to support their prices, creating new money and bank reserves which aggravate the inflation, or they must resign themselves to reduced market prices for government securities and a rise in interest rates which the Treasury must pay on new issues.

Postwar and Recent Monetary Policy

At least until one year ago the Federal Reserve's decision was to support the government securities markets and surrender to inflation. In this choice the desire of the Treasury officials for stable security markets at low rates of interest played a major role. Interest rates on Treasury bills and certificates were allowed to rise soon after the war. But long-term bonds, bellwether of interest rates, were supported at prices which did not allow interest yields above 2½ percent, until March, 1951. A key feature of the postwar economy was therefore "easy money" despite inflation.

The spurt of inflation that occurred in the last half of 1950, following the outbreak in Korea, was due largely to a growth of private expenditures, as millions of honest citizens simply tried to "buy it up ahead of the hoarders." In doing this the private economy disposed of government securities, which the Federal Reserve absorbed (see accompanying chart). Bankers, their reserves freely augmented, greased the wheels of inflation by increasing their loans at the rate of \$1 billion per month.

During this episode the Federal Reserve showed increasing resistance to the low-interest desires of the Treasury, and in March, 1951, an "accord" was reached

between the two monetary agencies. Under it the Treasury issued a bond bearing 2¼ percent — killing the sacred cow of 2½ percent — and the Federal Reserve allowed the bond market to weaken and yields on long-terms to rise moderately, as shown in the chart.

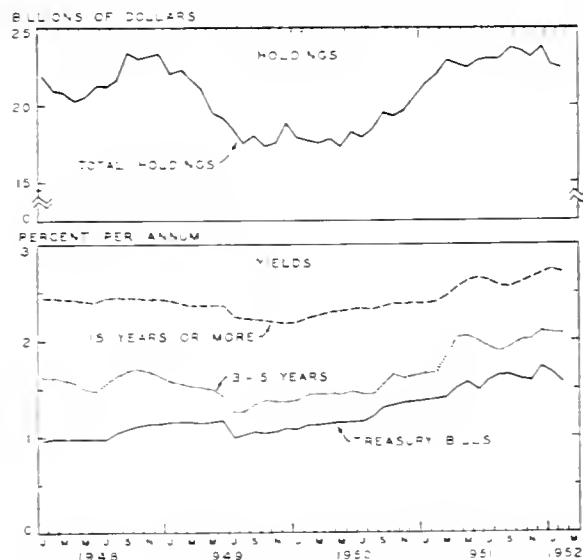
The Patman Committee Inquiries

The Subcommittee on General Credit Control and Debt Management ("Patman Committee") of the Joint Committee on the Economic Report has recently been studying questions of monetary and debt policy. Replies to a questionnaire sent by the committee to selected public officials, bankers, businessmen, and economists, and published by the Joint Committee under the title "Monetary Policy and the Management of the Public Debt, Their Role in Achieving Price Stability and High-Level Employment," provide a more complete picture of recent monetary policy-making than had previously been made public.

Testimony has ranged afar. Chairman Leon Keyserling of the President's Council of Economic Advisers "would not have advised" last year's abandonment of bond supports. Professor Milton Friedman of the University of Chicago held that the Reserve System has tolerated or promoted avoidable inflation and should be abolished in favor of a system in which banks hold 100 percent reserves against their deposits.

Between the extremes lay the more reconcilable views of Secretary of the Treasury John W. Snyder and Reserve Board Chairman William McChesney Martin. Each endorsed the policy declared in the Employment Act of 1946, "to promote maximum employment, production, and purchasing power," although each also thought that explicit mention of price-level stability would be helpful. Neither believed that a more specific Congressional mandate for monetary policy was desirable, and neither suggested any major changes in our monetary institutions. Both emphasized the need for cooperation between their two agencies, attested that the record of such cooperation

FEDERAL RESERVE HOLDINGS AND YIELDS ON GOVERNMENT SECURITIES



Source: Federal Reserve Board.

was on the whole a good one, and endorsed the principle of an independent Reserve System.

The whole tenor of the proceedings reveals, however, that the Treasury, while insisting that low interest charges on the public debt are not the major aim of policy, remains strongly attracted to "stable markets" for government bonds. If this meant merely that the Reserve should counteract day-to-day speculative influences, none would dissent. But by a "stable market" Secretary Snyder means one "in which prices and yields fluctuate within a moderate range over a considerable period, but without exhibiting any pronounced upward or downward *trend*" (my italics).

However, as President Allen Sproul of the New York Reserve Bank emphasized, the bottom of any such "moderate range" is in effect a support level, and will be recognized as such in a period of inflation. If there can be no pronounced upward or downward trend in government security prices then there can be no prompt tightening of money markets in the face of inflation, nor any prompt easing in the face of a slump. The Treasury's position remains, therefore, that monetary policy should be held in (or recommitted to) limbo.

The Economic Outlook

The past year has been one of high employment and production and a reasonably stable dollar. That inflation was checked early in 1951 was due, in indeterminable degrees, to a variety of causes. Some cite direct price controls, others the less-than-anticipated volume of defense spending. Money markets were moderately tightened, yet there was nevertheless monetary expansion. Almost certainly the major influences were the "psychological" ones: Consumers, having had a prolonged opportunity to stock up on durable goods during the postwar years, and having had a "final fling" in late 1950, increased markedly the fraction of their incomes going to savings. Businesses, having accumulated inventories in the preceding inflationary period, began drawing them down.

Whatever the causes, 1951 was not an inflation year. As a result the abandonment of rigid Federal Reserve supports for the government bond market was not followed by any severe decline in bond prices.

In the year ahead, however, fate may be less kind to the monetary and debt managers. The problems of public finance will be greater, since in addition to refundings the Treasury will need upwards of \$10 billion of new funds because of deficit spending. The problems may be mitigated by further slowdowns in mobilization, or continued high levels of saving. And, conceivably, the current bearish psychology might show such strength as to become, like beauty, its own excuse for being. More likely, however, is another psychological turnabout of the kind discussed in the editorial, "Psychopathology of the Postwar Economy," in the February issue of this *Review*. Inflationary pressures would then reassert themselves, and the monetary authorities would again face a situation of the kind which prevailed just after Korea. This is at least too strong a possibility to ignore. Where then in monetary policy?

Tight Money and Interest Rates

Faced by a new spurt of inflation, the Federal Reserve might again surrender. In this case it would buy government securities to prevent all or most of the decline which private selling would otherwise cause in their prices.

On the other hand, the Reserve authorities *might* de-

termine that, as a minimum, the quantity of money should not be permitted to grow by expansion of bank credit while prices are rising. They might even decide, since in inflation existing money is being used more rapidly, to force an offsetting decline in bank credit. In either case the Reserve would not only refuse to buy, but would actually sell, government securities. In so doing it would deprive the banks of reserves until the growth of bank credit was checked or reversed.

Prices of government securities would fall; interest yields on the securities would rise. The capital loss realized in selling a security would increase, weakening the inflationary potential not only of bank-held government securities but of those held by others as well. To sell new securities the Treasury would be obliged to pay the higher rates of interest prevailing on the market, and interest charges on the debt would rise as a result.

The extent by which interest rates would rise would depend upon the degree of inflationary pressures and upon other matters hard to predict: the effect of higher interest rates upon savings; the extent to which banks would accept losses on security sales in order to accommodate local borrowers; and the extent to which such private borrowers as corporations or home builders would forego borrowing, allowing loanable funds to flow into government securities. Moderately or sharply, interest rates would certainly rise, not because higher rates are the *objective*, but because they are the *result* of a restriction of credit and the money supply.

The level of interest rates is the price which allocates any limited amount of loanable funds among would-be borrowers, both governmental and private, just as the price of sugar allocates sugar among consumers and the level of rents allocates housing space among tenants. The refusal to allow interest rates to perform their allocating job (and the resulting "necessity" for the Federal Reserve Banks to supply loan funds without limit in times of inflation) is a part of the present widespread denial of the efficacy of free markets, a view which this writer does not share. When inflation next appears it will surely be time to test the effectiveness of vigorous monetary policy as a preventive. If the Reserve authorities would make clear now their intention to do this should need arise, perhaps Congress, disturbed at the thought of higher interest charges on the national debt, would fulfil its own minimal responsibility of balancing the budget.

Business Briefs

(Continued from page 7)

used in autos, trains, buses, and public buildings, and will eventually be used in homes. The glass can be laminated, or tempered for use in most types of flat glass applications. The makers point out that while it cuts the intensity of solar radiation and actually takes the heat out of sunshine, there is no sacrifice of the light transmission characteristics of quality glass.

Aluminum Production

A new process for producing war-vital aluminum has been disclosed by the British Columbia Aluminum Company in New Westminster, B.C. It makes use of a new type of "square" or long-wave electricity different from the usual alternating and direct current. The process saves up to 30 percent of the electrical energy ordinarily used to produce aluminum.

LOCAL ILLINOIS DEVELOPMENTS

Declines were general in the Illinois business indexes for February; but when allowance is made for the fewer workdays, activity during the month compared favorably with January. Coal tonnage and petroleum output were down nearly 7 and 10 percent, respectively; electric power production was off by 10 percent. Awards of construction contracts declined by 28 percent from the January level. Department store sales, up 0.8 percent to 105.5 (1947-49 = 100), showed the only important rise during the month. Steel production in the Chicago district rose from 100.4 percent of capacity in January to 102.0 percent in February, but output dropped 5 percent to 1,798,000 tons because of the shorter month.

Food Price Rise Slowed

The rate of increase in food prices in the large cities of the State has slowed in recent months. Decreases or smaller increases in the prices of dairy products, eggs, and fats and oils have been the most important checks on the rate of rise; prices of fruits and vegetables, beverages, and sugar and sweets have also shown some signs of leveling off or declining.

The degree to which the rate of increase has slackened is illustrated in the accompanying chart. In the three Illinois cities for which indexes are available, as well as in the nation as a whole, retail food prices increased by about 12 to 15 percent from June, 1950, to January, 1952. In each case, however, approximately two-thirds of the total increase occurred in the months immediately after the outbreak of war in Korea; only about one-third of the rise took place between January, 1951, and January, 1952.

The consumers' price index for Chicago dropped 1.1 percent between January 15 and February 15 to 191.9 (1935-39 = 100), the level of mid-September, 1951. The index was only 1.8 percent above that of February, 1951. The main factor in the over-all drop was a 2.6 percent

decline in food prices caused by large cuts in the prices of fruits and vegetables, and eggs, and smaller decreases in the prices of fats and oils, and meats.

Farm prices received fell 4 index points during the month ended February 15 to 296 (1910-14 = 100). Sizable decreases in prices of feed grains and hay, and poultry and eggs were the most important causes. Prices paid rose from 287 to 288; the parity ratio dropped from 105 to 103. The parity ratio for the nation dropped from 105 to 100 between mid-January and mid-February.

Construction Contract Awards Off Sharply

The value of construction contracts awarded in Illinois during February was off substantially from the January total. The 28.2 percent decline in contracts let reflected large drops in the nonresidential building (53.3 percent) and public works and utilities (41.5 percent) classifications. Only residential awards, up 27.3 percent, increased. Even with the large reduction from the previous month, the February total exceeded the level of February, 1951, by 13.3 percent. Public works and utilities contracts were almost double the 1951 month, and nonresidential awards were more than 8 percent higher. Contracts let for the construction of residences were down nearly 3 percent on a year-to-year basis.

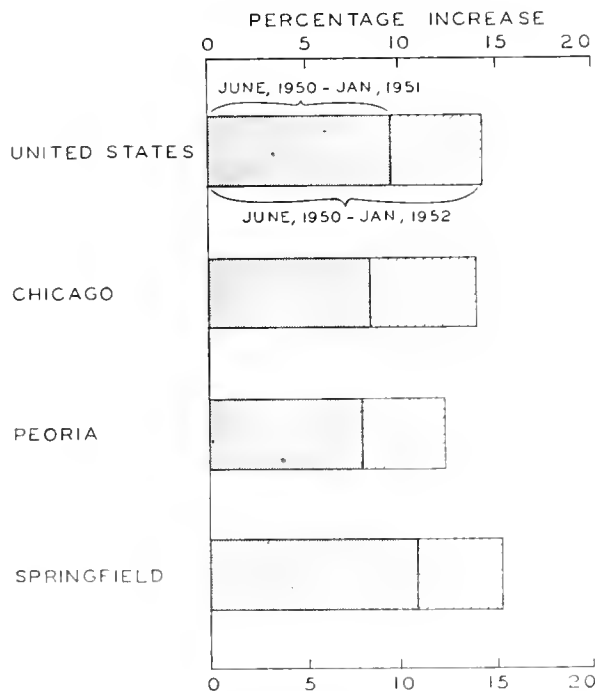
Several large projects are to be undertaken in the near future. The Granite City Steel Company has announced a \$40 million expansion program to be completed in 1953. New facilities will add 500,000 tons, or about two-thirds of last year's total production, to the company's capacity. Construction is expected to start this summer on additions to the Springfield works of the Allis-Chalmers Company. Approximately \$15 million is to be spent for enlarging the plant and adding equipment to permit increased production of tractors, graders, and parts. At Chicago, Illinois Bell has announced plans for a new \$12-million long-distance center. The new project, to be completed in about two years, is expected to protect communications in emergencies as well as improve service.

1952 Planting Estimates

Acreages planted in crops this spring will fall short of national goals, according to preliminary crop estimates of the United States and Illinois Departments of Agriculture. These goals were set last December after consideration of the needs of domestic and foreign consumers and the requirements of the military program. Farmers plan at present to plant one million fewer acres than last year instead of the six and a half million additional acres thought necessary by the U. S. Department of Agriculture. Planned acreages exceed government goals in wheat, oats, soybeans, hay, and rice, but fall by a substantial margin to meet the goals for such crops as corn, barley, flax, and sorghums. Feed for livestock is a major concern, with the number of animals on farms now at a peak. Shortage of farm labor and falling prices seem to be two important checks on increased acreages.

In Illinois, farmers expect to plant larger acreages of corn, winter wheat, and oats, but acreages of barley, potatoes, and soybeans are well below last year. Acreage put into hay is expected to be slightly lower. As in the nation as a whole, difficulty is being encountered in obtaining farm labor. In addition, there is some uncertainty as to the adequacy of fertilizer supplies.

RETAIL FOOD PRICES



Source: Bureau of Labor Statistics.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

February, 1952

	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS	\$11,761 ^a	942,989 ^a	\$486,039 ^a		\$10,255 ^a	\$11,463 ^a
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +22.3 +0.3 -28.5 +6.1	{ -22.5 -1.6 -21.5 -1.6	{ -7.5 -4.0	{ -6.3 +8.9	{ -2.8 +13.7
NORTHERN ILLINOIS						
Chicago	\$8,071	740,373	\$362,661		\$9,327	\$9,904
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +8.6 +1.5 -42.8 +5.8	{ -21.5 -2.0 -16.9 +13.1	{ -8.9 -4.3	{ -6.3 +8.8	{ -2.7 +13.1
Aurora	\$ 314	n.a.	\$7,186		\$ 40	\$ 75
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +481.5 +33.1	{ -16.9 +13.1	{ +1.9 +4.6	{ -9.5 +12.9	{ -11.0 +7.3
Elgin	\$ 150	n.a.	\$4,573		\$ 26	\$ 96
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +151.2 +92.3	{ -31.7 -4.2	{ +1.1 +5.0	{ -10.7 +7.3	{ +13.4 +38.0
Joliet	\$ 233	n.a.	\$9,160		\$ 46	\$ 69
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +177.4 +46.5	{ -24.0 +9.3	{ -3.3 -3.5	{ -8.3 +14.1	{ -6.6 -12.5
Kankakee	\$ 158	n.a.	\$4,373		n.a.	\$ 31
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +198.1 +18.8	{ -25.0 +9.2	{ -5.9 -22.2		{ -1.7 +13.9
Rock Island-Moline	\$ 633	18,342	\$8,774		\$ 33 ^b	\$ 133
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +66.6 +136.8	{ -10.8 +0.1	{ -25.3 -1.2	{ -3.9 +12.3	{ -11.5 -1.3
Rockford	\$ 377	28,758	\$14,296		\$ 120	\$ 189
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +83.2 -24.8	{ +2.1 +11.2	{ -23.9 -4.5	{ -3.0 -10.0	{ -6.9 +9.5
CENTRAL ILLINOIS						
Bloomington	\$ 168	6,250	\$4,658		\$ 46	\$ 116
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +140.0 +572.0	{ +5.0 +22.5	{ -24.4 -2.4	{ -8.8 +15.3	{ +12.7 +66.6
Champaign-Urbana	\$ 196	8,102	\$6,269		\$ 47	\$ 79
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +154.5 +64.7	{ -8.1 +8.3	{ -24.0 -2.6	{ -7.3 +12.8	{ -2.6 +29.6
Danville	\$ 108	7,719	\$5,136		\$ 36	\$ 44
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +96.4 -34.5	{ +2.0 +4.5	{ -27.8 -1.7	{ -6.1 +0.6	{ -12.1 +7.7
Decatur	\$ 131	21,285	\$8,677		\$ 79	\$ 94
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +5.6 +33.7	{ -1.6 +18.8	{ -23.5 +2.0	{ -6.4 +1.7	{ -4.6 +13.7
Galesburg	\$ 50	5,868	\$3,482		n.a.	\$ 29
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +85.2 -25.4	{ -9.3 +1.4	{ -28.1 -6.4		{ -9.2 +7.7
Peoria	\$ 373	47,290 ^c	\$15,488		\$ 192	\$ 192
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +168.3 +118.1	{ -5.1 +2.7	{ -25.4 -5.9	{ +7.1 -0.8	{ +3.5 +1.7
Quincy	\$ 177	7,306	\$4,125		\$ 33	\$ 72
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +126.9 +71.8	{ +6.0 -6.1	{ -28.0 -7.3	{ -5.0 -11.0	{ -2.1 +10.9
Springfield	\$ 324	24,749 ^c	\$11,823		\$ 81	\$ 221
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +39.1 +111.8	{ -4.4 +10.6	{ -27.1 ^d +0.5	{ +2.9 +20.2	{ -10.5 +9.8
SOUTHERN ILLINOIS						
East St. Louis	\$ 134	12,193	\$7,858		\$ 119	\$ 52
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ -72.3 +294.1	{ -0.9 +16.3	{ -24.3 +1.3	{ -13.8 +12.1	{ -24.7 +15.5
Alton	\$ 84	10,086	\$4,039		\$ 29	\$ 30
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +223.1 +71.4	{ -8.9 +0.5	{ -30.5 -0.6	{ -5.3 +19.8	{ -0.5 +18.3
Belleville	\$ 90	4,667	\$3,462		n.a.	\$ 37
Percentage Change from.....	{ Jan., 1952..... Feb., 1951.....	{ +114.3 +800.0	{ -4.6 -1.8	{ -28.3 -4.5		{ -18.6 -8.2

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for January, 1952, the most recent available. Comparisons relate to December, 1951. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

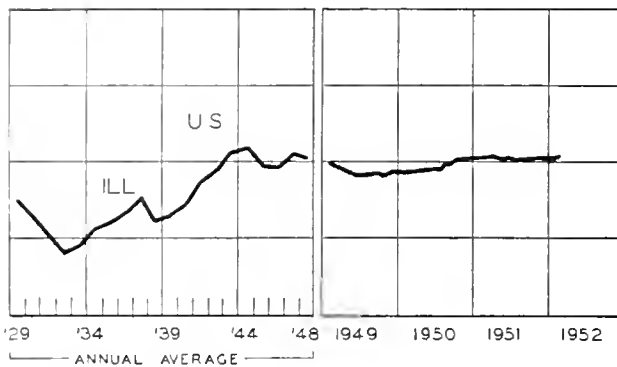
^c Includes immediately surrounding territory.

n.a. Not available.

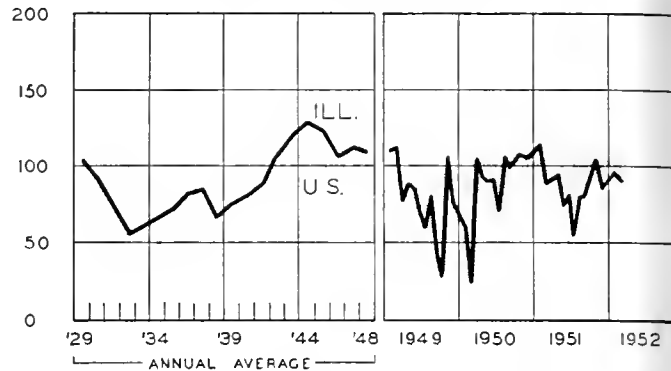
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

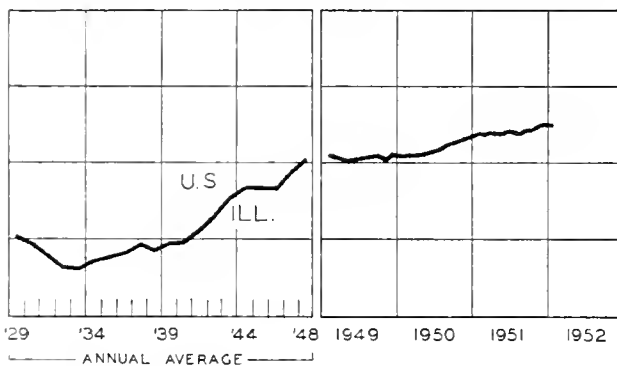
EMPLOYMENT — MANUFACTURING



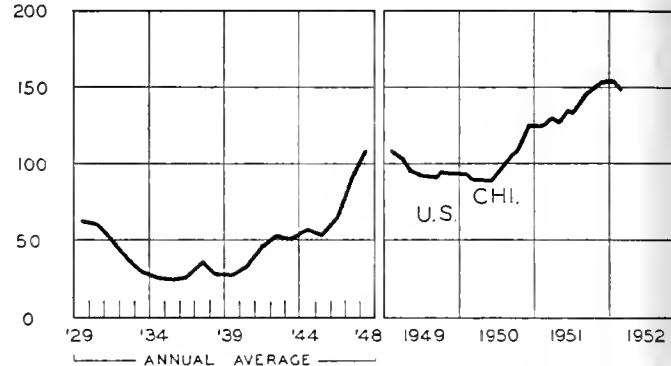
COAL PRODUCTION



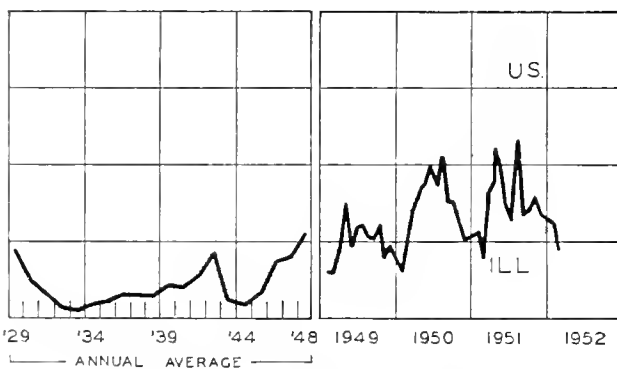
AVG. WKLY. EARNINGS — MANUFACTURING



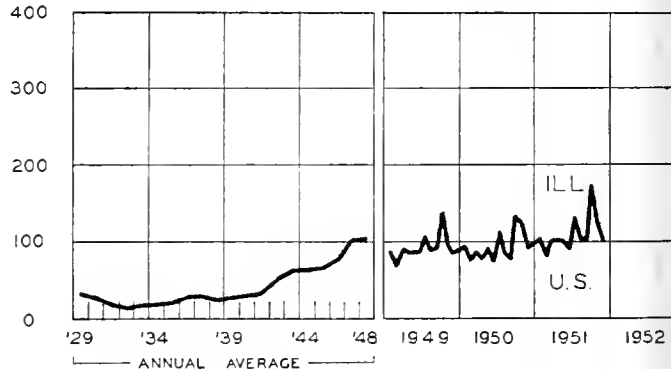
BUSINESS LOANS



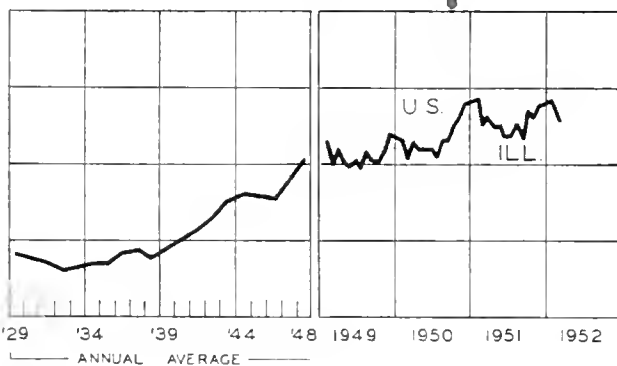
CONSTRUCTION CONTRACTS AWARDED



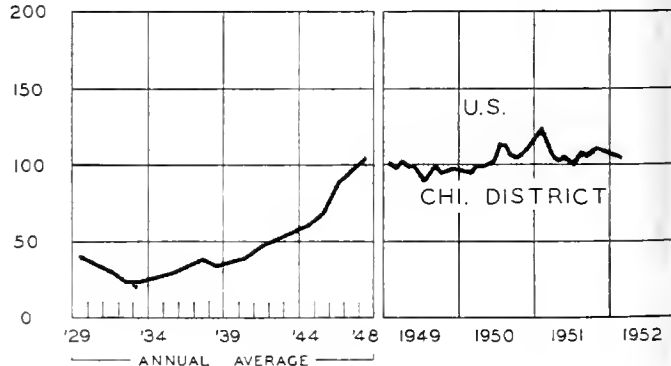
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY

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COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME IX

MAY, 1952

NUMBER 5

HIGHLIGHTS OF BUSINESS IN APRIL

Weakness in soft goods and the labor difficulties in steel and other industries depressed industrial production in April. The Federal Reserve index of industrial output is estimated to have declined three points in the month to 217 percent of the 1935-39 average production level; this is the lowest point since last August. At the same time, however, passenger car assemblies were maintained in April at an annual rate of 4.8 million cars, and shipments of machine tools rose to an annual rate of more than one billion dollars, the highest since the 1942 record of \$1.3 billion.

On the retail scene, the Federal Reserve Board suspended all controls on installment buying. This action abolished the mandatory requirement of a 15 percent down payment on appliances, one-third on automobiles, and 18 months to pay off the remainder. In the opinion of the Federal Reserve Board, supplies of durables are now plentiful enough so that installment credit curbs are no longer needed to restrain inflation.

Wholesale Prices Down

Wholesale prices have been declining slowly though steadily since March, 1951. By the end of April the Bureau of Labor Statistics comprehensive price index was down about 4.5 percent from the peak level. For the month as a whole, only a fractional decline was indicated.

One result of these price declines was the suspension of price controls for a number of commodities at the primary producer level as of April 28. Included among the commodities, all of which were selling below ceiling prices, are cattlehides, calfskins, tallow, lard, soapstock, vegetable oils, burlap, and wool. However, the suspension order contains a provision for the reimposition of controls if prices rise to certain levels.

At the retail level, general price declines have not yet appeared. In the month ended March 15, the consumer price index rose fractionally to 188.5 percent of the average level of prices in 1935-39. The divergent trends in these two indexes are not as inconsistent as they may seem, because it generally takes some months until price developments at the wholesale level are reflected at retail.

Construction Maintains Record Pace

For the second consecutive time, the value of new construction put in place set a record for the month. At \$2.5 billion, new construction outlays in April were 8

percent above the March level—a seasonal increase—and 1.3 percent above the April, 1951, level.

The increase above last year was largely due to a 17 percent upsurge of public construction activity, with military and naval construction up 159 percent over last April and public industrial construction up 67 percent. Private building activity, on the other hand, was down 2 percent although a few components, such as industrial building and public utility construction, registered increases.

So far this year, construction activity has been maintained at record levels. Total outlays for new construction in the first four months of this year amounted to \$8.9 billion as compared with \$8.6 billion for the first four months of 1951. However, declines have occurred in scattered communities as home building and commercial construction have slackened.

Federal Budget Picture Improves

The Federal deficit for the current fiscal year ending June 30 is now expected to be \$5.7 billion instead of the \$8.2 billion originally anticipated, according to Congressional tax specialists. Both expenditures and revenues in the current fiscal year are expected to be lower than predicted in January, but with expenditures dropping more than revenues.

A substantial deficit is still expected for the next fiscal year, 1952-53, but the new estimate, \$11.7 billion, is also considerably below the \$14.4 billion deficit figure predicted in January. Government receipts are expected to run to \$65.3 billion, but spending is expected to rise even more, to \$80 billion, nearly 20 percent above the spending rate in the present fiscal year.

Export Balance Widens

For the third month in succession, the gap between exports and imports widened in March. Exports amounted to \$1.4 billion, 10 percent above March, 1951, and imports came to \$963 million, 19 percent below last March. Both figures, however, were above the February level, since exports of grains and of machinery and vehicles rose as did imports of metals and manufactures.

For the first three months of this year, United States exports have exceeded imports at an average rate of \$45 million. This is almost 100 percent above the deficit in the first quarter of last year.

ILLINOIS BUSINESS REVIEW

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Perspective in the Steel Controversy

The furor that has arisen over the seizure of the steel industry obscures the underlying issues. Price and wage policies are made to look all awry, calling forth new proposals for the abandonment of controls and curtailment of the right to strike.

Attention in the press has largely focused on the question of presidential powers. Statements of high officials seem to indicate a dictatorial frame of mind. This was particularly true of the responses of Holmes Baldrige, government attorney, under questioning by Judge Pine. He insisted that the powers inherent in the President's office were unrestricted, not to be enjoined by the courts, and he added that the government was acting on the basis of "expediency backed by power." Since expediency backed by power is the worst form of government action, public reaction was severely adverse.

The government case was immeasurably weakened as the issue took this form. The very extremity of Mr. Baldrige's views may in the end prove of public service by clarifying the possible use of executive power. All this, however, contributes little to the solution of immediate problems.

Controversy in the Steel Industry

The situation in the steel industry illustrates again the difficulty of attempting control when the public is not convinced that a real emergency threatens. As we have indicated in previous issues, there has recently been a letdown in the sense of urgency with which economic and international affairs are regarded. However lacking in justification this change in sentiment may be, however temporary it may prove, at the moment it dominates attitudes and limits cooperation with the control agencies.

Looking backward, it seems clear that the economy was overcontrolled early in 1951, when fears of war and inflation were dominant. Even the OPS now concedes that developments have made controls unnecessary in many industries, and has suspended them for a number of products whose prices are well below established ceilings.

It is difficult to argue, however, that controls were unnecessary in the steel industry. This industry presents a clear example of the kind of situation in which a concentration of demands, both military and civilian,

created a pressure on prices that would tend to drive them up out of any reasonable relation with costs. Price control is specifically designed in these circumstances to remove the opportunity for realizing exorbitant profits. It inevitably becomes a form of profit limitation.

The justification for raising price ceilings to cover increased costs cannot be considered clear in any industry where profits are high. This was the heart of the controversy over the Capehart amendment which was made a part of the Defense Production Act last summer. The amendment provided higher ceilings where costs had increased, but only to the extent of increases that took place before July 23, 1951.

The reluctance of employers subject to price ceilings to raise wages is commonly regarded as an effective element in stabilization policy. Resistance to wage demands cannot, however, be left solely to the process of private collective bargaining. If work stoppages are to be minimized, the government must provide mechanisms for mediation and settlement of disputes.

The wage policies adopted by the Stabilization Board are realistic in providing increases to meet the advance in living costs. Workers cannot be asked to sacrifice living standards under present conditions. Nor can wages be rigidly held in controlled industries when they are free to move up elsewhere, because it is precisely in these industries that the need for maintaining an efficient working force is greatest. In the present instance, the WSB findings were that the wages of steel workers had lagged behind those in other key industries, both in basic rates and in "fringe" benefits. Whatever the arguments for or against the specific increases recommended, they do not provide a sound basis for abandoning efforts to obtain an independent determination of the facts.

The steel industry refused to absorb the increases and sacrifice its profits even to the limited extent necessary after reductions of excess profit taxes. In this respect, the industry was more or less in tune with the general shift of sentiment; and the government, seeking a compromise, offered somewhat more than was strictly allowable under the Capehart amendment, only to have it rejected as inadequate. From the outset the industry had succeeded in tying wage and price negotiations together, so that any price issue became also a wage issue. By refusing to grant the recommended wage increases unless fully compensated by price increases, it forced the workers to take the initiative in shutting down production. Both anti-strike sentiment and anti-government sentiment were thus adroitly lined up on its side.

Getting Back to Fundamentals

In the heat of controversy, there is a tendency to lose sight of fundamentals. Among these is the fact that there can be no control without a means of enforcement. The device of seizure, which President Truman adopted, is one that has been used in the past to keep the coal mines open and that is currently being used to keep the railroads running. This is a device that makes little change in actual operations; it has been effective because neither labor nor management is willing to stop operations while the government is nominally in charge. Aside from the possibility that wage and price changes might be put into effect, it is little more than a legal fiction, or as Judge Pine's decision held, an illegal one. To date, it seems to have affected the right to strike more than it has any of the prerogatives of management.

(Continued on page 6)

GREEN LIGHT FOR TELEVISION

The television broadcasting industry moved into the black for the first time in its brief history in 1951, when its income before taxes was estimated at \$43 million. This compares with losses of \$9 million in 1950 and \$25 million in 1949. Also for the first time, networks reported a greater proportion of gross revenues from television than from standard radio broadcasting.

Lifting the "Freeze"

Commercial television operation, authorized in 1941, did not get under way until after the war, but it was soon obvious that the government's original allocation of TV channels was inadequate. Technical problems, including the relative merits of several systems of color broadcasting, further complicated the picture. In 1948 the Federal Communications Commission halted all new station installations until it could formulate a master plan for channel distribution.

The final FCC report which lifted the "freeze" on station construction was not released until last month. At the present time there are only 108 television stations, almost all of them in the larger cities, and television broadcasting has been confined to operation in the very high frequency (VHF) range of the electronic spectrum. The 12 channels available in this range allow no more than 400 stations for the country and a maximum of 7 stations for even the largest metropolitan areas.

On April 13 the Commission assigned 70 new television channels in the ultra high frequency (UHF) range, a relatively unexploited portion of the spectrum. This will make it possible for the government to permit operation of 2,000 stations in over 1,200 communities scattered across the country. Under the allocation plan every region in the United States will eventually have television service. Three-fourths of the communities allotted TV channels will have UHF broadcasting only, which cannot be received on present VHF-band sets unless a converter is attached.

Nearly 12 percent of the available channel space, 242 of the local station assignments, was set aside for non-commercial use, primarily for educational purposes. This is in contrast to noncommercial use of radio which represents not more than 5 percent of the nation's 3,000 radio broadcasting stations.

Although the FCC expects about 1,000 applications, there will be no overnight boom in station construction. Processing of applications will start in July, but where applications exceed the number of assigned channels in a city considerable delay is expected. Probably less than a dozen new stations will begin operation in 1952.

Broadcasting in Illinois

There are now five television stations in the State, four in Chicago and one in Rock Island. The new allocation plan provides for 65 Illinois stations in 37 cities (30 of which will have UHF alone). Only 13 of the total number of assignments will be for the VHF range.

Chicago is scheduled to have 10 stations and Champaign-Urbana and Rock Island-Moline are each listed for five. Peoria will have four stations; Rockford and Springfield will have three; and Carbondale, Centralia, Decatur, and Quincy have each been allotted two.

The other 27 channel assignments are scheduled for towns which are to have only one station. Towns in the northern part of the State with one channel include Aurora, DeKalb, Dixon, Elgin, Freeport, Galesburg, Kewanee, Joliet, Kankakee, LaSalle, Streator, and Waukegan.

In the central part of the State single stations are scheduled for Bloomington, Danville, Jacksonville, Lincoln, Macomb, Mattoon, and Pekin. Southern Illinois towns which have been given only one channel are Alton, Mount Vernon, Belleville, Cairo, Harrisburg, Marion, Olney, and Vandalia.

Only three other states—California, Michigan, and Texas—have been allotted more stations than Illinois. (The State ranks sixth in commercial radio broadcasting with 122 stations.)

About 12 percent of the Illinois channel assignments were given over to noncommercial purposes, the same proportion as in the nation as a whole. Of eight stations allotted to Illinois for educational use, only two have VHF channels, one in Chicago and one in Urbana. The six UHF channels were given to Rockford, Springfield, DeKalb, Carbondale, Rock Island-Moline, and Peoria.

Things to Come

Television is a relatively young field which is encountering many difficulties and problems, both in technical operation and in programming, but it has shown outstanding promise for the future.

Advertising-supported television programming may some day be supplemented by pay-as-you-see television similar to the Phonevision system of distributing movies which was tested in Chicago in 1950. In Phonevision, although a regular television transmitter sends the signal, a small fraction is withheld to be sent over the telephone system. Only a scrambled image is received until the patron calls the telephone operator and asks to have his set cut in on the program. The service is charged to the phone bill. Other techniques for pay-as-you-see television avoid the use of the telephone wires, supplying the unscrambling impulses by punch cards and coin boxes.

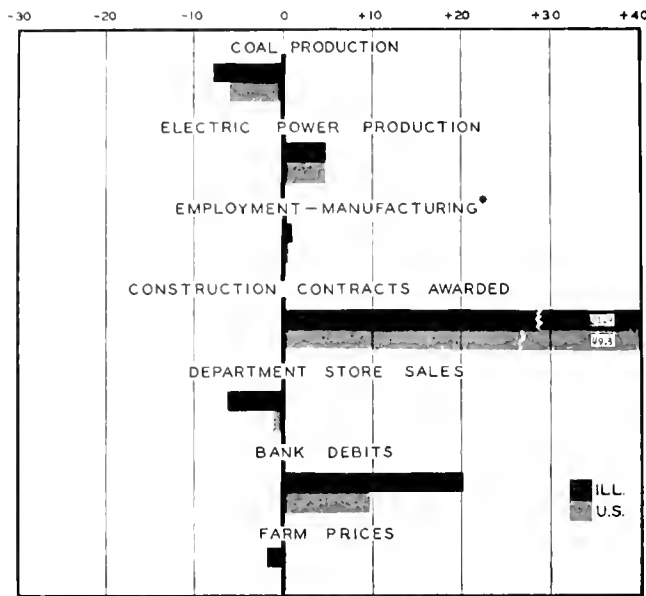
A recent technical improvement is the development of complete television stations so small they can be carried in a shoulder pack. Scheduled for initial use at this summer's political conventions, they are expected to add great flexibility to the medium, which has previously been unable to broadcast away from the studio without elaborate mechanical preparations. By sending picture signals to the local station for rebroadcast, these "walkie-lookies" will bring a new era to television coverage of current events which up to now have usually reached TV screens by way of film.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes February, 1952, to March, 1952



*January, 1952, to February, 1952

ILLINOIS BUSINESS INDEXES

Item	March 1952 (1947-49 = 100)	Percentage Change from	
		Feb. 1952	Mar. 1951
Electric power ¹	135.4	+ 4.8	+ 3.4
Coal production ²	83.1	- 7.9	- 10.0
Employment—manufacturing ³	104.7	+ 0.5 ^a	- 2.6 ^b
Weekly earnings—mfg.	n.a.		
Dept. store sales in Chicago ⁴	98.9 ^c	- 6.3	- 5.4
Consumer prices in Chicago ⁵	113.3 ^d	+ 0.4	+ 1.9
Construction contracts awarded ⁶	137.0	+51.9	-11.6
Bank debits ⁷	140.9	+20.1	- 1.4
Farm prices ⁸	113.3	- 1.7	- 7.0
Life insurance sales (ordinary) ⁹	128.8	+16.3	+ 4.7
Petroleum production ¹⁰	94.6	+ 9.0	+ 3.4

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a January, 1952, to February, 1952. ^b February, 1951, to February, 1952. ^c Seasonally adjusted. ^d On 1935-39 base, the index was 192.7. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	March 1952	Percentage Change from	
		Feb. 1952	Mar. 1951
Personal income ¹	257.8	- 0.2	+ 5.0
Manufacturing ¹			
Sales	265.2 ^a	- 5.2	- 2.2
Inventories	42.2 ^{a, b}	0.0	+18.5
New construction activity ¹			
Private residential	9.4	+17.4	- 9.0
Private nonresidential	9.3	+ 5.9	+ 2.7
Total public	8.3	+16.3	+18.3
Foreign trade ¹			
Merchandise exports	17.0	+ 6.5	+10.2
Merchandise imports	11.6	+ 7.9	-12.6
Excess of exports	5.4	+ 3.7	+146.9
Consumer credit outstanding ²			
Total credit	19.6 ^b	- 0.8	+ 0.9
Installment credit	13.1 ^b	- 0.3	+ 1.3
Business loans ²	25.6 ^b	+ 1.0	+11.2
Cash farm income ³	24.5	+ 1.7	+ 1.2
Indexes (1947-49 = 100)			
Industrial production ²			
Combined index	119 ^a	- 0.9	- 0.9
Durable manufactures	131 ^a	- 0.4	+ 1.8
Nondurable manufactures	109 ^a	- 1.1	- 5.5
Minerals	112 ^a	- 1.8	+ 3.8
Manufacturing employment ⁴			
Production workers	103 ^a	- 0.4	- 3.4
Factory worker earnings ⁴			
Average hours worked	102	- 0.2	- 1.0
Average hourly earnings	124	+ 0.5	+ 5.1
Average weekly earnings	127	+ 0.3	+ 4.1
Construction contracts awarded ⁵	173	+49.3	+ 4.2
Department store sales ²	105 ^a	- 0.9	0.0
Consumers' price index ⁴	112 ^c	+ 0.1	+ 1.9
Wholesale prices ⁴			
All commodities	112	- 0.2	- 3.6
Farm products	108	+ 0.5	- 7.9
Foods	109	- 0.3	- 2.5
Other	114	- 0.3	- 2.9
Farm prices ³			
Received by farmers	107	- 0.3	- 7.4
Paid by farmers	116	0.0	+ 2.9
Parity ratio	100 ^d	0.0	- 9.9

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ^a Seasonally adjusted. ^b As of end of month. ^c On 1935-39 base, 188.0. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1952					1951
		Apr. 26	Apr. 19	Apr. 12	Apr. 5	Mar. 29	Apr. 28
Production:							
Bituminous coal (daily avg.)	thous. of short tons.	1,622	1,533	1,342	1,537	1,644	1,741
Electric power by utilities	mil. of kw-hr.	7,140	7,104	7,154	7,219	7,263	6,674
Motor vehicles (Wards)	number in thous.	124 8	121 8	115 9	116 3	124 0	153 6
Petroleum (daily avg.)	thous. bbl.	6,277	6,271	6,271	6,280	6,304	6,069
Steel	1935-39 = 100	233 8	228 2	145 0	237.6	239.9	231.3
Freight carloadings	thous. of cars	779	735	691	707	725	825
Department store sales	1947-49 = 100	105	97	111	109	101	101
Commodity prices, wholesale:							
All commodities	1947-49 = 100	111.3	111.5	111 6	112.3	112.3	116 3
Other than farm products and foods	1947-49 = 100	113 1	113.2	113.2	113.9	113 9	117.1
28 commodities	August, 1939 = 100	293 2	294 2	296.5	297 0	300 3	372.9
Finance:							
Business loans	mil. of dol.	20,872	21,052	21,049	21,172	21,364	19,127
Failures, industrial and commercial	number	168	188	184	185	164	162

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Lags

A 3-point drop during April in the Federal Reserve index of industrial activity was caused mainly by the cut in steel output resulting from labor difficulties in that industry. Production was estimated at 217 percent of the 1935-39 average. During the second week of April, when furnaces were shut down in anticipation of the strike, steel output dropped to 62 percent of capacity; and late in the month, when workers walked out, the rate was briefly down to 52 percent. For the month, the weekly average was 83 percent, equivalent to more than 1.7 million net tons. Production of the automotive industry had not been affected by the steel dispute by the end of April. Car output was up substantially from the previous month, but the number of trucks assembled was down. During the month, more than 411,000 cars and 110,000 trucks were produced.

A recent survey in 10 large cities by the National Production Authority indicated that, while stocks of a few types of consumers' hard goods were inadequate, inventories of most durables were ample. In the past few weeks there have been reports of production cut-backs prompted by excessive inventories. Westinghouse has cut its output of refrigerators, and General Electric has announced sharp cuts in the manufacture of refrigerators, freezers, washing machines, and garbage disposal units.

Credit Declines

Bank loans to business firms dropped \$376 million in the four weeks ended April 30 to a total of \$20.8 billion. Almost half of the reduction, \$180 million, took place during the week ended April 23.

Consumer credit fell during March for the third consecutive month. The latest decline, \$159 million, cut the total outstanding to \$19.6 billion. Most of the contraction resulted from a drop of \$124 million in noninstallment credit, mainly charge accounts. Installment credit was

down by \$35 million to \$13.1 billion at the end of March.

As illustrated in the accompanying chart, both types of credit have shown a substantially lessened rate of increase in the past year. The net increase during 1951 in consumer credit outstanding was less than \$600 million, in contrast with increases of \$2.5 billion and \$3.3 billion in 1949 and 1950, respectively. Moreover, the continued drop through March of this year, although similar to the 1951 movement, is in contrast to the behavior of total consumer credit outstanding in earlier postwar years when March marked the annual upturn.

In the case of bank loans, the expansion of late 1951 has been followed by a short period of steadiness or of moderate declines. In recent months bank loans have moved only between \$20.8 billion and \$21.5 billion.

Steps were taken in April and early May to ease credit restrictions. The requirement for a 10 percent down payment on home improvements has been lifted, but Regulation X, which governs the terms of real estate purchases, remains in effect. The Federal Reserve Board also dropped its program of voluntary credit restraint, which was set up in March, 1951, following the post-Korea upsurge in loans; and on May 7 it suspended all restrictions on installment buying.

Employment Up Seasonally

Employment rose between the survey weeks of March and April, almost entirely as a result of the spring increase in farm employment. Unemployment was cut nearly 200,000. Bureau of Census data, in thousands of workers, are as follows:

	April 1952	March 1952	April 1951
Civilian labor force	61,744	61,518	61,789
Employment	60,132	59,714	60,044
Agricultural	6,412	6,012	6,645
Nonagricultural	53,720	53,702	53,400
Unemployment	1,612	1,804	1,741

Sales Off

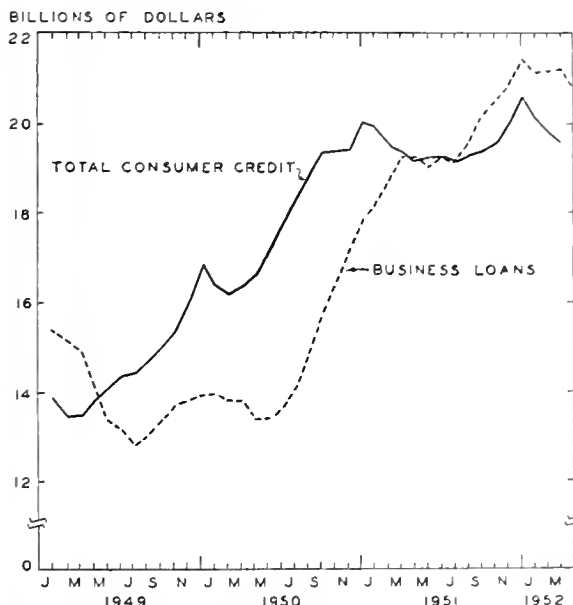
On a seasonally adjusted base, sales of both manufacturers and retailers dropped during March. Shipments of manufactured goods totaled \$22.1 billion, 5 percent below the previous month. However, the actual difference between sales in February and March was small, since the seasonal adjustment did not take into account the extra day in a leap-year February. Inventory book value remained unchanged for the third month at \$42.2 billion. Total unfilled orders shrank slightly to \$62.9 billion as the backlog for durable goods dropped, though unfilled orders for some durables subgroups, such as electrical machinery and transportation equipment, increased.

Seasonally adjusted retail sales exceeded \$12.4 billion during March, about 3 percent lower than the February level. The largest drop occurred in sales of durable goods, down more than 7 percent to \$4.1 billion. Declines of 2 percent to 5 percent were general; for the automotive group trade was off 11 percent from February. Moderate decreases were the rule in the various subgroups of non-durable goods.

Large Expansion of Capacity

Total fixed capital investment of corporate businesses from 1946 through 1952 will amount to \$124 billion. This almost doubles the \$140 billion gross value of capital assets at the beginning of the period, according to a re-

CONSUMER CREDIT AND BANK LOANS



Source: Federal Reserve Board.

1. The first step is to identify the problem or question that needs to be answered. This involves understanding the context and the specific requirements of the task.

1. The first step in the process is to identify the problem or issue that needs to be addressed. This involves gathering information and understanding the context of the problem.

2. Once the problem is identified, the next step is to define the objectives and goals of the project. This helps to clarify what needs to be achieved and provides a clear direction for the work.

3. The third step is to develop a plan or strategy to address the problem. This involves breaking down the problem into smaller, manageable tasks and determining the resources needed to complete them.

4. The fourth step is to implement the plan. This involves putting the strategy into action and monitoring progress to ensure that the objectives are being met.

5. The final step is to evaluate the results of the project. This involves assessing the effectiveness of the plan and identifying any areas for improvement or further action.

1. The primary purpose of this study is to determine the effect of the proposed changes on the overall system performance. The study will be conducted in a controlled environment, and the results will be compared to the current system performance. The study will also determine the effect of the proposed changes on the system's ability to handle a large number of transactions.

1. The first step in the process of developing a new product is to identify a market need. This involves conducting market research to determine what consumers want and need. Once a market need is identified, the next step is to develop a concept for a product that meets this need. This concept should be based on the market research and should take into account the needs and preferences of the target market. The concept should also be feasible in terms of production and distribution. Once a concept has been developed, the next step is to create a prototype of the product. This prototype should be used to test the concept and to gather feedback from potential customers. Finally, once the concept has been tested and refined, the product can be developed and brought to market.

THE NEW YORK PUBLIC LIBRARY

The Department of the Interior, Bureau of Land Management, is a part of the Federal Government. It is responsible for the management of the public lands of the United States. The Department is headed by the Secretary of the Interior, who is appointed by the President. The Bureau of Land Management is one of the major agencies within the Department. It is responsible for the management of the public lands of the United States, including the acquisition, disposal, and management of these lands. The Bureau is also responsible for the protection of the public lands from unauthorized use and for the promotion of the conservation of these lands. The Bureau is currently reviewing the proposed action and has determined that it is in the public interest to approve the proposed action. The Bureau is also responsible for the management of the public lands of the United States, including the acquisition, disposal, and management of these lands. The Bureau is also responsible for the protection of the public lands from unauthorized use and for the promotion of the conservation of these lands.

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NOTATION AND INDEX

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BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Lightweight Electric Motor

A new electric motor has been developed which is said to weigh only half as much as present motors but to have the same amount of power. The General Electric Company, maker of the motor, points out that because more new motors can be produced from a given amount of materials, consumers may be able to buy a motor-driven device that would otherwise be uneconomical. The new unit is expected to find wide use in homes, factories, offices, and on the farm, powering such equipment as motorized tools, oil burners, air conditioners, office appliances, and commercial refrigeration units.

Soil Insecticide

A new insecticide to combat soil insects that attack food crops has been approved by the Department of Agriculture and will be available for use this season. Made by the Shell Chemical Corporation, "Aldrin" is a compound of carbon, hydrogen, and chlorine that has shown dramatic results in killing such insects as earthworms, wireworms, and white grubs which infest the soil under crops of corn, small grains, sugar beets, sugar cane, and peanuts. Aldrin-treated peanut fields were found to yield 40 percent more peanuts than untreated fields. It is reported that Aldrin can be used in far smaller quantities than any previously known treatments, with considerable savings. Two or three pounds an acre are said to be enough to last several years, except for heavy soils or soils with a high mineral content where up to five pounds per acre might be needed. The cost to the farmer would run from \$10 to \$15 an acre.

Accounting Bulletin

Accounting and Its Managerial Uses is the title of a new bulletin published by the Business Management Service of the University of Illinois. The purpose of accounting is to provide business enterprises with information essential to reaching decisions and formulating plans and policies, and the bulletin tells how to get information both from within a business and from outside sources. Types of balance sheets, profit and loss statements, and breakdowns of sales and costs are illustrated, as well as reports of operations in all departments of a business.

New Synthetic for Rubber Highways

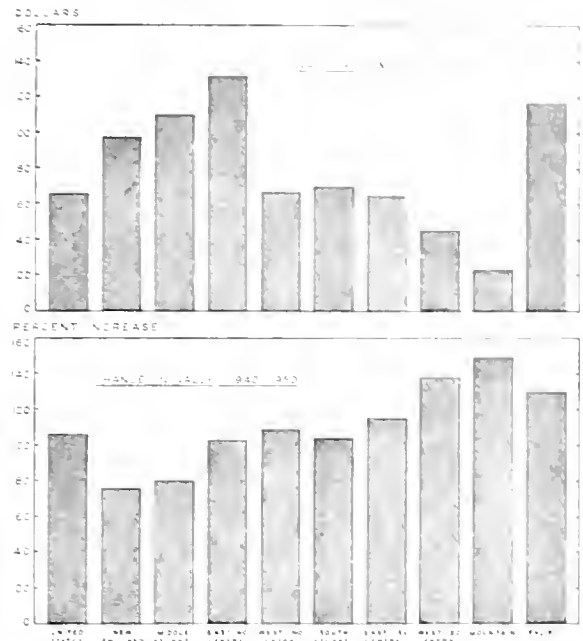
The Goodyear Tire and Rubber Company has developed an entirely new synthetic rubber powder which is said to reduce the cost of rubber highways appreciably. Use of rubber in road construction has been held up by the additional expense involved, which might be as much as \$1,000 a mile more than asphalt alone. However, Goodyear now believes that its 25-year experiments with rubber roads may lead to low-cost superhighways in 10 years. The advantage of the new synthetic lies in its fine particle size and its ready-mix qualities. It is mixed with asphalt in proportions of 1.5 percent to 2 percent rubber and the balance asphalt, giving a surface found by an independent testing laboratory to be as effective as a 5 percent conventional mixture of asphalt and crumbled synthetic or natural rubber.

Farmland Values Rising

In 1951 farmers received the highest valuation of their farmland on record, according to an article in the April issue of the *Farmer's Bulletin*, No. 1850, published by the U.S. Department of Agriculture. The monthly estimates placed the total value of farm land and buildings at nearly \$70 billion, an increase of about \$4.5 billion, or 6.6 percent, since 1941. Most of this increase reflects the change in dollar value, since the general price level more than doubled during the 10-year period. As shown by the chart, the 1,158 million acres in farms in 1950 had an average value of \$65.45 per acre, and per-acre values have continued to rise since the 1950 census was taken. Further increases are expected to raise the March, 1952, estimate to about \$82 per acre.

The East North Central states, which include Illinois, are listed as having the highest value per acre, although the percent increase for this region was less than the increase for the nation as a whole. In general, values have gone up the least in the Northeastern states and the most in the Mountain and Pacific Coast states. In total value of farm land Texas is the top ranking state with \$6.7 billion, whereas Illinois ranked fourth. Over two-fifths of the total value of farm real estate in the country, however, is located in the North Central region.

FARM REAL ESTATE VALUES



Source: Bureau of Agricultural Economics.

Standards for Surface Measurement

A joint General Motors-Chrysler engineering staff has developed a new standard for uniform precision in making surface roughness measurements accurate to one-millionth of an inch. The work, based on pure gold master blocks, will make possible adoption of uniform standards in surface measurement comparable in importance to the well-known Johansson blocks for dimensional

(Continued on page 9)

POSTWAR FREIGHT RATE INCREASES

D. P. LOCKLIN, Professor of Economics

On April 14 the Interstate Commerce Commission issued its report on further hearing in *Increased Freight Rates, 1951*, authorizing additional increases in railroad rates. These increases represented a 6 percent increase over existing rates in Eastern, or Official, Territory, and a 9 percent increase elsewhere. Most of the new rates became effective on May 2.

The increases authorized in the latest decision are in lieu of smaller increases authorized in April and August of 1951 and represent an increase of 15 percent in the basic rates in effect before the 1951 increases. Some commodities were permitted increases of less than 15 percent, and for many commodities maximum increases in cents per hundred pounds or per ton were fixed. The effect of these maximum increases, or "hold-downs," is to provide smaller percentage increases on long-distance hauls in order to lessen the disturbing effects of a straight percentage increase in rates. Straight percentage increases, applied without modification or exception, would make the aggregate rate increase so great on long-distance shipments that existing patterns of industrial location and market areas might be seriously affected.

Cumulative Effect of Postwar Increases

This is the eleventh general increase in rates which has been allowed by the Interstate Commerce Commission since the end of hostilities in World War II. Even when the various "hold-downs" are taken into consideration, the latest increases represent an average advance of 78.9 percent over the rates in effect on June 30, 1946, when the series of general increases began, according to estimates made by the Bureau of Transport Economics and Statistics of the Interstate Commerce Commission. Considered regionally, the increases average 73.6 percent in

the Western District; 76.2 percent in the Pocahontas Region; 79.6 percent in the Southern Region; and 83.4 percent in the Eastern District, where the railroads have made the poorest financial showing in the postwar period. These increases are averages; traffic which has not been affected by "hold-downs" has been subject to increases of as much as 123 percent in the Eastern, or Official, Territory. On traffic affected by the "hold-downs" the increases have been less than the average.

The postwar increases in rates have not produced a corresponding rise in the average revenue per ton-mile received by the Class 1 railroads, as is shown by Chart 1. Increases in rates from 1945 to 1950 averaged 61.1 percent. Average revenues per ton-mile increased from 9.67 mills in 1945 to 13.41 mills in 1950, an increase of only 39 percent.

Failure of the average revenue per ton-mile to increase as much as the average increase in freight rates is due to a number of factors. Among these are: (1) the slowness of state commissions to grant increases in intrastate rates to correspond to the increases in interstate rates; (2) increasing diversion to other modes of transport of traffic that has been subjected to the greatest increases in rates; (3) a drying-up of some sources of traffic; (4) voluntary reductions in some rates to prevent diversion or drying up; and (5) changes in the composition of traffic unrelated to rate changes. It seems likely that loss of traffic, or voluntary reductions in rates to prevent its loss, have been important factors in holding down the increase in average revenue per ton-mile to somewhat less than the authorized increases in rates.

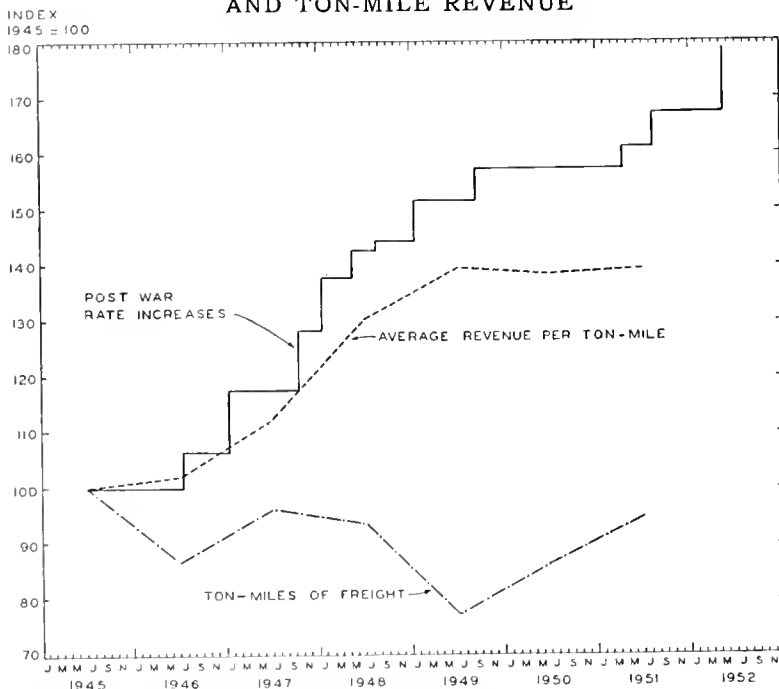
Competitive Position of the Railroads

The rise in railroad freight rates in the postwar period has not been entirely matched by increases in the rates of motor carriers. The latter have advanced less than the former, resulting in an increase in the rate advantage of the motor carriers. It is apparent, also, that the railroads' proportion of all intercity freight is declining. This may be due, however, more to the service advantages of motor carriers than to their rate advantages.

In 1945 the Interstate Commerce Commission estimated that the railroads carried 68.23 percent of the total ton-miles of intercity freight. In 1950 the railroad proportion was 58.69 percent. In the same period the share carried by motor carriers increased from 5.49 percent of the total to 12.39 percent. Motor traffic in 1945 was affected by wartime restrictions and shortages, but Chart 2 shows that even when compared with the prewar period the proportion of total freight traffic carried by the railroads has declined.

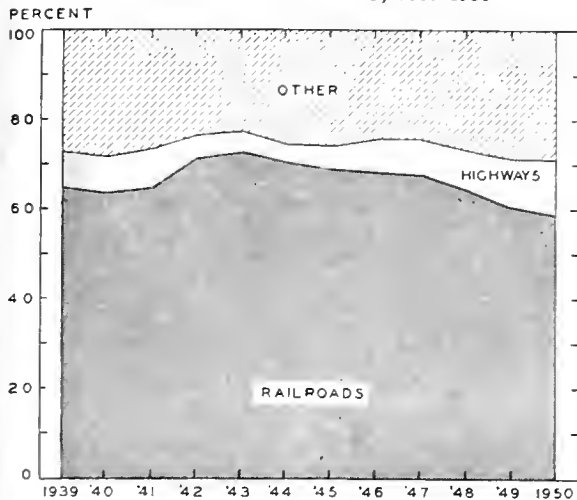
The latest increases in rates, like the earlier ones granted in the same proceeding in 1951, are not to become an integral part of the rate structure. They are to be considered as additional charges, or surcharges, and are scheduled to expire not later than February 28, 1954. The increases are thus considered to be temporary in character, granted because of the inflationary wage and

CHART 1. POSTWAR RAILROAD RATE INCREASES AND TON-MILE REVENUE



Source: Interstate Commerce Commission.

**CHART 2. DISTRIBUTION OF INTERCITY
FREIGHT TRAFFIC, 1939-1950**



Source: Interstate Commerce Commission.

price conditions which have prevailed, and are to be removed when conditions will permit.

Although it is possible that reductions in prices and wages and the maintenance of a high volume of traffic will permit removal of the surcharges, it takes an optimist to believe that they will really be removed. It is much more likely that lower prices and wages would be accompanied by decreased industrial production and declining traffic, and that still higher rates might be regarded as necessary. The experience of the 1930's does not hold out much hope that a period of falling prices would permit a lowering of freight rates. During that period, increases in freight rates were made to offset, in part, the effects of a decline in the volume of traffic. Shippers and consumers cannot look forward with any assurance to ultimate relief from the present high rates.

Effect on Railroad Earnings

Although the latest increases bring no joy to shippers and consumers, they come as a relief to the railroads which have been faced with rising operating costs. The Interstate Commerce Commission estimates that the increases will yield \$281,000,000 of increased net railway operating income after taxes. It is interesting to note, however, that to produce this addition to net railway operating income, rate increases are authorized which are estimated to yield \$679,000,000 of additional revenues, of which \$306,000,000 will go to the Federal government in the form of additional income taxes from railroad corporations. The increase of \$281,000,000 in net railway operating income, if realized, will represent a 30 percent increase over that of 1951.

If we can assume that prices and wages will stabilize at about their present levels, the future financial position of the railroads will depend largely on what happens to the volume of traffic. A substantial decline in industrial output would again put the railroads in an unsatisfactory earning position. Further diversion of traffic to other means of transportation, changes in production and marketing designed to avoid high transportation rates, or voluntary reductions in particular rates to stave off such developments may prevent the railroads from maintaining the level of earnings at present anticipated. It is not impossible, however, that

general economic developments may take a course that will maintain or even increase railway earnings.

Business Briefs

(Continued from page 7)

measurement standards. Without established standards for surface finishing, each company more or less set up its own and it was often difficult, if not impossible, for parts to be matched or components from different shops used in precision production. The seven-year cooperative engineering project for improving the quality of machined parts will have far-reaching importance in synchronizing precision production for national defense as well as for civilian manufacturing.

New Resin Finish Improves Rayons

A new textile resin, which is said to impart durable water repellence, as well as stain, crush, and shrink resistance, is being marketed by the Sun Chemical Corporation, New York, N.Y. The new product, called "Noraset," can be applied, in one operation, on regular finishing plant equipment to virtually all synthetic goods. It is permanently set in the fabric and does not affect porosity. Most finishing today involves the use of a water repellent, a shrinkage control agent, and a crush-resistant agent to obtain the desired effect, whereas with Noraset this is accomplished with a single application.

Insulating Varnish

A new all-purpose electrical insulating varnish has been developed by General Electric's chemical division. Suitable for treating motor and generator cores and windings, magnet coils, and transformer windings, it can be applied to rotors with speeds up to 10,000 r.p.m. and is suggested for use on a wide variety of electrical equipment. It is an oil-modified phenolic varnish which cures thoroughly and gives high bonding strength with a smooth wrinkle- and bubble-free surface. If necessary, it can be thinned with petroleum spirits.

Oxygen-Making Device

The Joy Manufacturing Company, a leading manufacturer of mining machinery, is now producing an oxygen-making device that will permit industrial users to make their own oxygen at savings up to 50 percent. The new semi-portable oxygen generator produces gas 99.5 percent pure, compared with the 90 to 95 percent purity usually attained in big tonnage oxygen plants. It is the result of nine years of research dating from a United States Air Force request for an oxygen generator that could be carried by an airplane. The Joy machine does not rely on chemicals, but compresses air, producing heat which is withdrawn with the help of honeycombed heat-exchanging tubes. As the air is cooled, it gradually begins to separate into its component parts, which vaporize at different temperatures so that the oxygen can be drawn off separately.

Adhesive for Packaging

Swift and Company reports that it has perfected a new adhesive which will both seal tight and open easily. The product is currently employed in palletizing freight shipments and warehouse storage piles. It is said to be strong enough to hold stacked merchandise and to break cleanly and swiftly in unstacking.

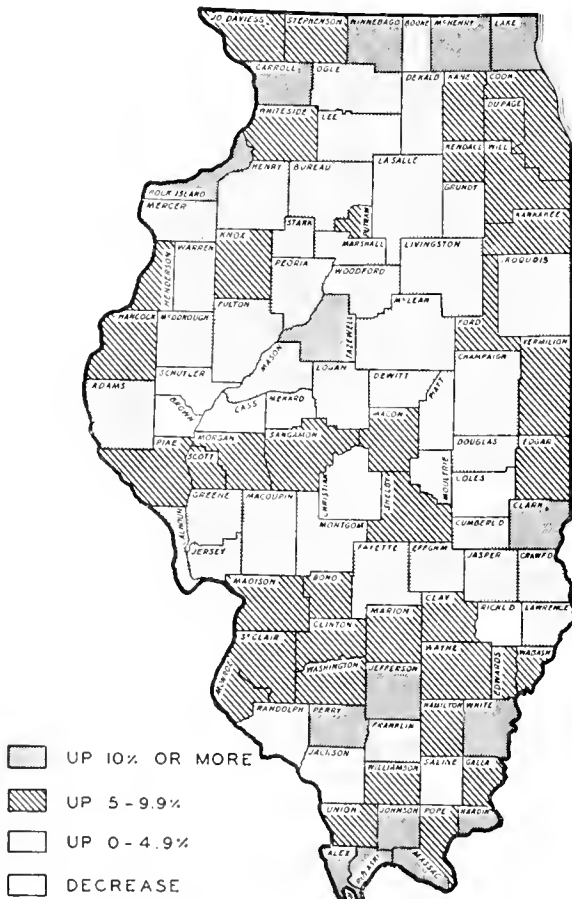
LOCAL ILLINOIS DEVELOPMENTS

Increases over February were general in March indexes of business activity; seasonal factors were important in many of the changes. Construction contracts awarded rose sharply as the spring upswing began. Steel production in the Chicago district rose 10.8 percent over February to a total of 1,991,000 tons. Steel mills operated at 105.6 percent of capacity, the highest rate in the last six months. Coal production, bank debits, and department store sales showed the chief declines from the previous month.

Retail Sales

Estimated retail sales in the State in 1951 reached a new peak of \$9.8 billion. The total represented an increase of 6.4 percent over the 1950 high. Downstate Illinois, with an increase of 6.9 percent, made a slightly better showing than Cook County, where sales were up by 6.1 percent. In 15 counties, eight of them in the southern part of the State, estimated sales for 1951 were more than 10 percent higher than in 1950. (See chart.) Sales in Massac County registered the largest increase, 45.8 percent, over the previous year. Part of the reason for the large increases in the southernmost counties is the construction of an Atomic Energy Commission plant at Paducah and the building of a large power plant at Joppa for the AEC project. Only seven counties reported declines during 1951.

RETAIL SALES PERCENTAGE CHANGE,
1950 TO 1951



Source: Illinois Department of Revenue.

Construction Awards Up Seasonally

Construction contracts awarded during March totaled \$72.7 million. The spring upturn raised the March total 5.2 percent over the February level. All major groups showed large advances; nonresidential building was up 71 percent and residential construction rose by 59 percent. Public works and utilities contracts let were 12 percent higher. In the nonresidential category, the value of contracts for commercial buildings had more than doubled, and the value for manufacturing buildings was one-third higher than in February.

Year-to-year changes, however, showed a general decline. Total awards were off by 11.6 percent from the level of March, 1951, with a 12.1 percent drop in residential construction the main factor. Substantial decreases occurred in nonresidential and public works and utilities, which were down 13.7 percent and 5.2 percent, respectively.

Mixed Price Movements

Consumers' prices in Chicago rose fractionally (0.4 percent) during the month ended March 15 to 192.7 percent of the 1935-39 average. Prices for food, apparel, and rent showed the largest increases, but in no case was the advance as much as 1 percent. Other classifications showed very little, if any, change.

Food prices in Peoria and Springfield have eased somewhat since mid-January, according to recent BLS releases. In Peoria, food prices fell 1.2 percent from February 15 to March 15; nearly all major products were selling at lower prices on the later date. Cereals and bakery products and beverages were the main exceptions. Meat, poultry, and fish prices were down by 1.4 percent; egg prices dropped more than 12 percent. Springfield food prices were off 1.6 percent between mid-January and mid-February. Substantial drops occurred in the prices of eggs and fresh fruits and vegetables.

Prices received by Illinois farmers declined 1.7 percent during the month ended March 15 to 291 (1910-14 = 100). Crops (down 3.8 percent) and livestock and products (2.3 percent lower) showed sizable decreases. Since prices paid (including interest, taxes, and wage rates) were unchanged, the parity ratio for the State dropped 2 points to 101.

1952 Highway Program

The 1952 program of highway construction and improvement is now under way. Included in this year's plans are an additional 175 miles of concrete pavement, almost 1,000 miles of bituminous surfacing on existing roads, and nearly 200 large bridges and other projects. Estimates of outlays for the program range as high as \$90 million, the largest annual expenditure on record for the State.

Part of the cost may be met out of receipts from the higher licensing fees for trucks which became law last July. So far, no additional revenue has been obtained from the increased fees because of the injunction obtained in November by truckers. Recently the Illinois Supreme Court upheld the constitutionality of the law, but an appeal is still to be heard. The law was expected to make available an added \$20 million this year in State highway revenue, to be matched by a similar sum from the Federal government.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

March, 1952

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS							
ILLINOIS		\$22,632 ^a	934,367 ^a	\$483,445 ^a		\$12,314 ¹	\$12,413 ¹
Percentage Change from	{ Feb., 1952	+92.4	-0.9	-0.5	+9.7	+20.1	+8.3
	{ Mar., 1951	-49.7	+5.3	+1.0	-11.4	-1.4	+0.2
NORTHERN ILLINOIS							
Chicago							
Chicago		\$16,011	733,465	\$360,497		\$11,292	\$10,770
Percentage Change from	{ Feb., 1952	+98.4	-0.9	-0.6	+8.1	+21.1	+8.7
	{ Mar., 1951	-57.6	+5.0	+0.4	-11.5	-1.2	-0.3
Aurora							
Aurora		\$ 335	n.a.	\$6,570		\$ 46	\$ 84
Percentage Change from	{ Feb., 1952	+6.7		-8.6	+9.5	+15.9	+11.8
	{ Mar., 1951	-26.5		+8.6	-14.9	+2.2	-0.5
Elgin							
Elgin		\$ 245	n.a.	\$4,942		\$ 29	\$ 91
Percentage Change from	{ Feb., 1952	+63.3		+8.1	+12.4	+14.1	-4.6
	{ Mar., 1951	-13.1		+11.4	-9.6	-3.0	+13.1
Joliet							
Joliet		\$ 251	n.a.	\$9,064		\$ 53	\$ 94
Percentage Change from	{ Feb., 1952	+7.7		-1.0	+18.1	+15.2	+35.1
	{ Mar., 1951	-25.5		+10.2	-12.8	+3.4	+33.1
Kankakee							
Kankakee		\$ 125	n.a.	\$4,170		n.a.	\$ 30
Percentage Change from	{ Feb., 1952	-20.9		-4.6	+6.9		-0.9
	{ Mar., 1951	-56.7		+6.8	-11.7		-8.1
Rock Island-Moline							
Rock Island-Moline		\$ 621	18,680	\$8,760		\$ 35 ^b	\$ 151
Percentage Change from	{ Feb., 1952	-6.3	+1.8	-0.2	n.a.	+8.7	+14.0
	{ Mar., 1951	-38.0	+1.8	+0.6		-3.0	+16.6
Rockford							
Rockford		\$2,740	27,961	\$14,270		\$ 138	\$ 191
Percentage Change from	{ Feb., 1952	+713.1	-2.8	-0.2	+23.6	+14.3	+0.9
	{ Mar., 1951	+124.2	+5.4	-0.1	-11.3	-5.3	+4.0
CENTRAL ILLINOIS							
Bloomington							
Bloomington		\$ 137	5,972	\$4,541		\$ 52	\$ 114
Percentage Change from	{ Feb., 1952	-18.5	-4.5	-2.5	n.a.	+11.1	-2.0
	{ Mar., 1951	-59.7	+20.0	+3.8		-3.1	+9.8
Champaign-Urbana							
Champaign-Urbana		\$ 194	8,102	\$6,307		\$ 51	\$ 83
Percentage Change from	{ Feb., 1952	-1.0	+0.0	+0.6	n.a.	+7.5	+4.8
	{ Mar., 1951	-61.2	+8.0	+5.2		-4.0	+2.9
Danville							
Danville		\$ 214	7,695	\$5,169		\$ 41	\$ 52
Percentage Change from	{ Feb., 1952	+98.1	-0.3	+0.6	+38.6	+12.1	+17.8
	{ Mar., 1951	+32.1	+12.4	+10.7	-6.0	-5.3	+9.5
Decatur							
Decatur		\$ 204	20,283	\$8,144		\$ 92	\$ 106
Percentage Change from	{ Feb., 1952	+55.7	-4.7	-6.1	+21.7	+16.0	+12.9
	{ Mar., 1951	+108.2	+15.8	+4.5	-14.4	-3.8	+12.0
Galesburg							
Galesburg		\$ 104	5,933	\$3,437		n.a.	\$ 30
Percentage Change from	{ Feb., 1952	+108.0	+1.1	-1.3	n.a.		+1.7
	{ Mar., 1951	-45.3	+9.4	+2.8			+25.2
Peoria							
Peoria		\$ 408	47,003 ^c	\$15,576		\$ 208	\$ 205
Percentage Change from	{ Feb., 1952	+9.4	-0.6	+0.6	+14.1	+8.2	+6.6
	{ Mar., 1951	-75.2	+0.2	+1.9	-8.4	-0.6	+5.6
Quincy							
Quincy		\$ 121	6,797	\$4,223		\$ 35	\$ 70
Percentage Change from	{ Feb., 1952	-31.4	-7.0	+2.4	+14.0	+5.9	-1.8
	{ Mar., 1951	-22.4	+0.8	+3.0	-20.0	-7.7	-0.7
Springfield							
Springfield		\$ 348	24,854 ^c	\$11,708		\$ 90	\$ 222
Percentage Change from	{ Feb., 1952	+7.4	+0.4	-1.0	+17.5	+10.1	+0.8
	{ Mar., 1951	+62.6	+17.6	+7.5	+9.1	-2.4	+10.7
SOUTHERN ILLINOIS							
East St. Louis							
East St. Louis		\$ 219	11,676	\$8,252		\$ 124	\$ 55
Percentage Change from	{ Feb., 1952	+63.4	-4.2	+5.0	n.a.	+3.9	+5.1
	{ Mar., 1951	+69.8	-0.9	+10.9		-10.9	+4.9
Alton							
Alton		\$ 292	10,890	\$4,227		\$ 30	\$ 26
Percentage Change from	{ Feb., 1952	+247.6	+8.0	-1.6	n.a.	+3.5	12.3
	{ Mar., 1951	+145.4	+0.8	+8.6		-6.2	+10.8
Belleville							
Belleville		\$ 63	5,056	\$3,590		n.a.	\$ 38
Percentage Change from	{ Feb., 1952	-30.0	+8.3	+3.7	n.a.		+2.1
	{ Mar., 1951	-23.2	+10.1	+5.6			+6.6

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for February, 1952, the most recent available. Comparisons relate to January, 1952. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

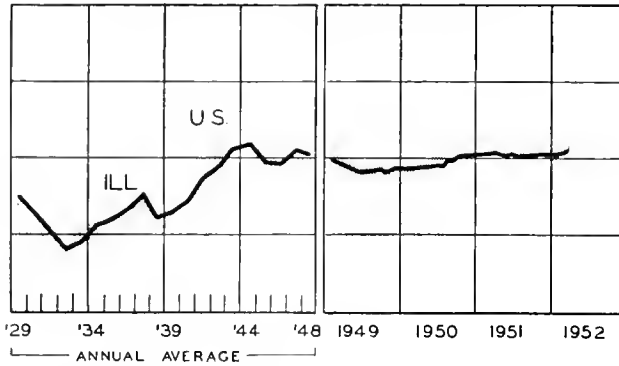
^c Includes immediately surrounding territory.

n.a. Not available.

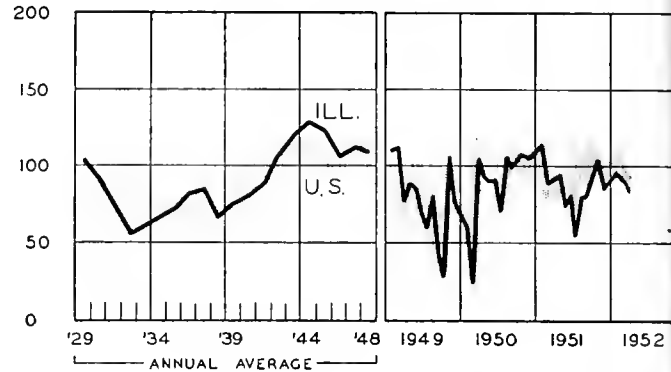
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

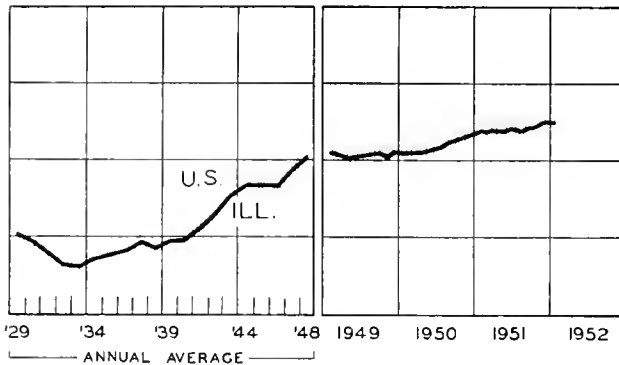
EMPLOYMENT — MANUFACTURING



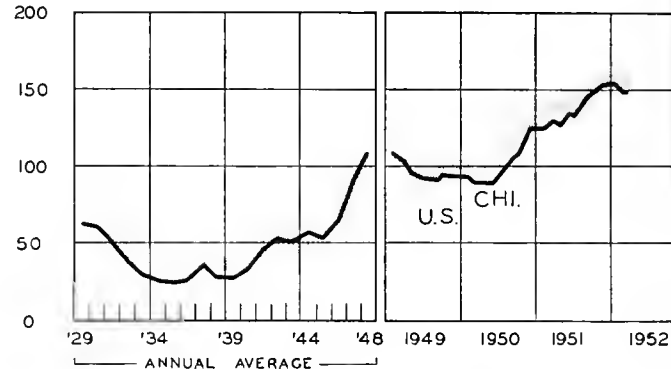
COAL PRODUCTION



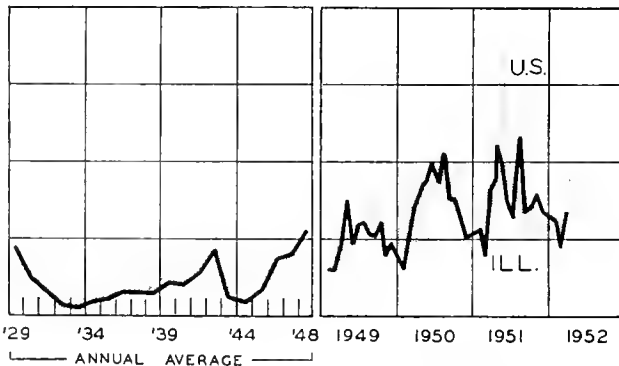
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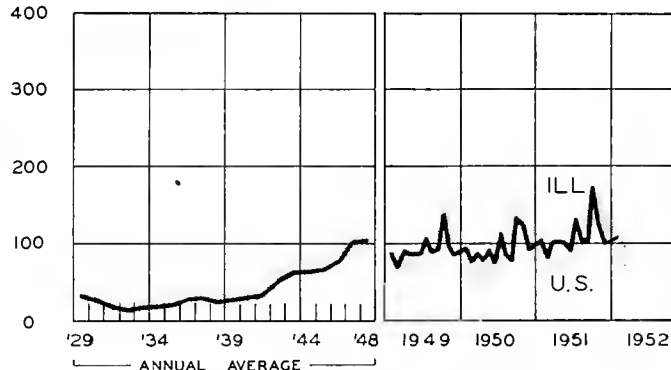
BUSINESS LOANS



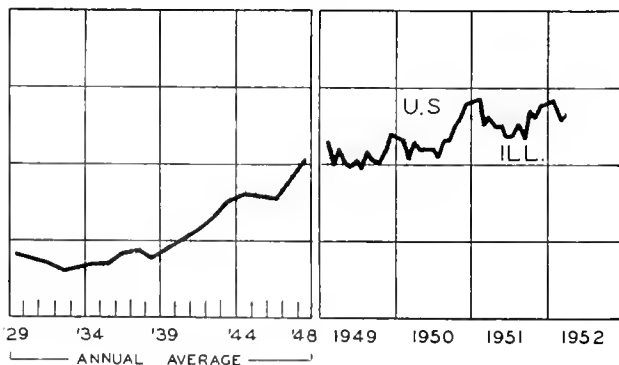
CONSTRUCTION CONTRACTS AWARDED



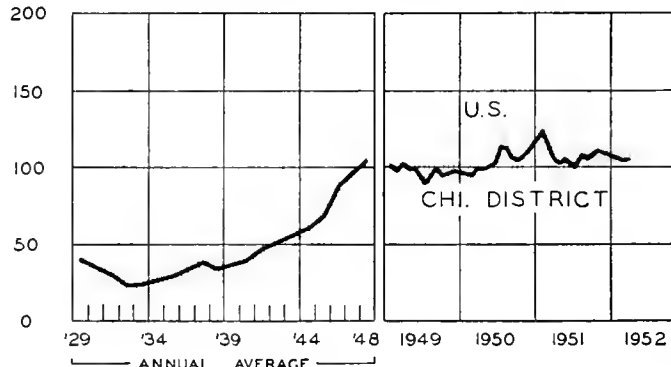
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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HIGHLIGHTS OF BUSINESS IN MAY

The strikes in the steel and oil industries and slackened demand by business and consumers caused industrial production in May to decline to the lowest point since last July. At 214 percent of the 1935-39 average, the Federal Reserve index of industrial production was down two points from the April level, and 9 points below the May, 1951, figure. Production of both durable and nondurable goods was down from the preceding months. Despite the strikes, steel production averaged better than two million net tons weekly and few shortages were reported. Automotive output, however, was down to 390,000 cars and about 107,000 trucks, well below April levels.

On the retail scene, sales appear to have picked up somewhat. Department store sales in May were estimated at 107 percent of their 1947-49 average, after adjustment for seasonal variation; this is nearly 4 percent above April sales and about 3 percent higher than department store sales last May. An analysis of the outlook for retail sales is provided by the special article on p. 8.

Employment Near Peak

May was the first month this year to witness an appreciable gain in nonfarm employment, which rose largely as a result of seasonal gains in construction and other outdoor activity. Up 500,000 over the April level, nonagricultural employment rose to 54.2 million, as compared to 53.7 million last May. Combined with an even sharper pickup in farm help, this raised total civilian employment to a near record of 61.2 million, only a few thousand below the high set last May.

Despite this favorable overall employment picture, weakness is evident in scattered areas. Factory employment in particular has been running below last year. Layoffs have been reported by such firms as International Harvester, General Electric, and various textile mills because of insufficient orders and resulting inventory accumulation. The continued low level of 1.6 million unemployed in May, the same as in April and in May, 1951, is largely due to the rising demand for workers in other fields which has been offsetting factory layoffs.

Consumers' Prices Near Peak

By mid-April, the Bureau of Labor Statistics consumers' price index was only a fraction below its all-time high of 189.1 percent of the 1935-39 average registered last January. The index had risen by one-half

of one percent in the month ended April 15 mainly as a result of sharp increases in the prices of fresh fruits and vegetables. A further increase in retail food prices was reported to have occurred in May.

Wholesale and farm prices showed little change, according to latest reports. The comprehensive index of wholesale prices in the last week of May was at the same level as the April index, 111.9 percent of the 1947-49 average. Prices received by farmers rose one percent between April 15 and May 15, and since prices paid by farmers remained unchanged, the parity ratio rose one point to 101. A year before, the parity ratio stood at 108.

Construction Outlook Bright

Expenditures on new construction in May rose to \$2.7 billion, a new record for the month. Although the 9 percent increase above the April level was largely due to seasonal influences, this level represents a 4 percent gain over May, 1951. The rapidly expanding public construction program is the main factor in these gains. Public industrial building was up 73 percent over last May and military and naval building had more than doubled. For the first five months, expenditures totaled \$11.9 billion, 3 percent over the 1951 level.

Construction activity is expected to set a new record in 1952, according to the latest government forecast. This report foresees that the value of new construction put in place in 1952 will exceed \$32 billion, assuming ample supplies of materials and relaxation of mortgage credit regulations; the latter has already occurred. The projected figure would exceed last year's total by more than \$1 billion.

Almost all of the increase is expected in public construction, since it is anticipated that private building activity may decline from last year's \$21.7 billion. Public outlays, however, may reach nearly \$11 billion, up 17 percent over 1951, mainly because of the rapidly expanding military and atomic energy programs.

The outlook for residential building is much the same as last year. The number of housing starts during the year is expected to be well over one million, slightly above the 1951 total. So far this year, housing starts have lagged somewhat in comparison with last year; for the first four months, starts totaled 347,900, 2 percent below the number begun in the corresponding period of 1951.

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Continuing the Upward Trend

Overall activity continued moderately upward in 1951 despite setbacks in many consumer industries. Now the depressed textile, apparel, shoe, and furniture industries are recovering. Relaxation of controls permits the stepping up of activity in other lines that had been restricted. Although the trend will be obscured for a while as the steel strike affects most indicators of activity, the advance will only momentarily be retarded.

Reports from Washington indicate that the National Production Authority hopes to go ahead with plans worked out before the strike to remove allocation controls on steel by the first of July. One such report indicates that the strike might even speed decontrol, helping to eliminate the need for controls by reducing incomes and demand during the work stoppage. This, however, is a highly erroneous view. The deflationary effects of strikes are always limited in amount and confined to the period of the shutdown. Moreover, no deflation is experienced by the struck industry itself, because demand for its product accumulates, intensifying pressure on production and prices.

Key Factors in the Business Outlook

The quick rebound in the steel industry at the end of the strike will, therefore, merely accelerate an upward movement already in evidence. A review of key factors in the business situation indicates that a substantial advance during the next year is probable.

Government Expenditures. Recently attention has been focused on the so-called "cutbacks" in the military program. Early this year schedules for military production were "stretched out," postponing attainment of goals for military equipment to various dates running as far as the end of 1955 for some hard-to-produce items. Subsequently, the House of Representatives passed a bill limiting the expenditures of the military services to \$46 billion in fiscal 1953, some \$5 billion less than the estimate set forth in the President's budget message last January. The foreign aid bill was also cut by more than \$1 billion.

These reductions, however, do not change the trend enough to keep the rise in government expenditures from being the decisive factor in the business outlook. Cutting back the peak rate of military production was in part no more than a recognition that the previous schedules for many of the most critical items could not be met. Pro-

urement of other items has already slowed somewhat, as a result of the armed forces reaching their authorized peak strength. Any program change of this kind tends to disorganize procurement for a time, but the military agencies have now worked out new operating objectives and are speeding up the placement of orders in an effort to make up for lost time.

Savings can no doubt be achieved by the advocates of economy in fiscal 1953. Any cut now contemplated, however, will merely lower the rate of increase. A \$5 billion cut would still leave government expenditures for goods and services running nearly \$12 billion higher a year hence. This large increase is greater than any prospective declines in the private economy.

Private Investment. Business outlays for new plant and equipment are setting new records in 1952. In the first quarter, purchases of producers' durable equipment and nonresidential construction were at an annual rate of \$42.5 billion, about 10 percent higher than the 1951 total. There is little to justify the commonly held view that these expenditures are now so high the only way they can move is down. Although some tapering off during the next year is not improbable, no large decline is in prospect.

Housing. Residential construction is showing every sign of a healthy recovery in recent months. With April starts up to 108,000 units, the prospect is that last year's total of 1,091,300 units will be exceeded. In addition, Regulation X was relaxed by the Federal Reserve Board to stimulate construction still further.

Inventories. Successive adjustments by industry during the past year have eliminated inventory accumulation. Nonfarm inventories declined at an annual rate of \$1.2 billion during the first quarter of 1952. Less than a year earlier, inventories were being accumulated at an annual rate of \$14 billion. This large swing on inventory account is the main factor in the letdown of 1951 and has served to correct the overenthusiastic buying that followed the Korean outbreak.

Now that this correction has been made, inventories can no longer be considered a force for deflation, and scare stories relating to the fact that the nation's warehouses are bulging with over \$70 billion of goods may be disregarded. The present volume of inventories is hardly excessive in the light of international uncertainty. In fact, even a moderate rise in sales will again make inventories relatively low. Although this shift will probably invite a renewal of accumulation, no extreme buying splurge like that of late 1950 and early 1951 can now be anticipated.

Consumption. The withholding of purchases by consumers appears to have been exaggerated in the telling. What was most definitely out of line was the high rate of spending in the first quarter of 1951. Thereafter, expenditures fell only a little below what might have been expected. At the year end, consumers not only maintained their purchases in the face of a tax increase that cut their disposable income by \$1 billion, but actually increased their purchases by \$3 billion in the first quarter of 1952. With this shift, consumers are again pursuing a policy of freer spending, and if there is any deviation from that policy in the months ahead, it seems more likely to be on the up side than on the down.

Wages and Prices

The combined effect of the changes that may be expected on this basis is a substantial advance in activity
(Continued on page 9)

HOME AND INDUSTRIAL LIGHTING

When Edison developed the first practical electric lighting system in 1882, the gas industry was firmly established in both commercial and residential lighting. In order to market his discovery the inventor had to set up his own lamp manufacturing company, founding one of the first successful mass-production industries.

Today's incandescent light bears a strong resemblance to the first lamp manufactured by Edison seventy years ago. The greatest advances have been the use of tungsten filaments to replace the original filaments of carbonized bamboo, and the gas-filled bulb which prevented the bulb-blackening common in the vacuum type.

In an incandescent lamp the electric current passing through the filament heats it to the point where it gives off light. About 90 percent of the energy consumed is lost in the form of heat. During recent years scientific attention in the electric lighting field has shifted to fluorescent lamps which use power more efficiently. However, because of its simplicity of application, the incandescent lamp has remained the most widely used illuminant.

Growth of Fluorescent Lighting

Probably the most notable development in lighting during the past decade has been the increasing use of fluorescent installations. Domestic sales of fluorescent lamps rose from only \$1.5 million in 1939, the year after the pioneer models were introduced, to \$85 million in 1949.

Fluorescent lighting got its start illuminating show-cases and displays. Industrial expansion during World War II brought an increasing need for a system giving greater illumination with reduced glare and there was a rapid acceptance of the relatively new method of lighting.

The operation of a standard fluorescent unit is basically different from that of an ordinary light bulb. When it is switched on, the electric current preheats a cathode attachment which generates a flow of electrons through the gas which fills the tube. This produces ultraviolet radiations causing the coating on the inside of the tube to fluoresce, or glow with light.

The first fluorescent tubes were all of the bluish-white daylight type. By varying the fluorescent coatings, manufacturers were able to make white tubes, especially suitable for residential use, which provide more flattering tones than the daylight models.

Fluorescent tubes produce a minimum of glare since their surface brightness is distributed over a relatively large area. Because much less heat is generated, twice as much light can be obtained from fluorescent systems as from incandescent installations at the same cost for current.

The "cold cathode" type of fluorescent tube is now coming into more general use. It does not require pre-heating to activate electrons inside the tube, but uses instead high voltages provided by a transformer. Although their installation is more expensive, cold cathode tubes have longer life, start instantly, and can be dimmed.

A variety of designs and sizes of fluorescent units are gaining popularity in the home-lighting field. Overhead fluorescent fixtures have become fairly common in kitchens, bathrooms, and workshops, and a recent development has been the production of circular tubes made for use with the round shades of portable household lamps.

Some day lighting may become an integral part of home construction, making portable lamps unnecessary. In the future, living rooms and offices may have ceilings constructed of phosphor-coated plastic or glass activated by an ultraviolet unit to produce a ceiling of light. Glass structural blocks may be made with phosphor-coated interiors, whose illumination is controlled by means of a photoelectric cell.

Lighting Fixtures — An Illinois "First"

Illinois is the nation's leading producer of lighting fixtures. In 1947 the State had 190 of the industry's 1,200 firms and had 9,000 employees, almost 20 percent of the total number of workers. Illinois firms accounted for \$91 million out of a total of \$475 million value of product shipped by the industry. This total was over twice the value of the 1947 production of the electric bulb and tube manufacturing industry which had 62 establishments, 6 of them in Illinois. (Complete state breakdowns on production in the bulb-producing industry were not published by the Census in order to avoid disclosing data for individual companies.)

Fixture manufacturers frequently are engaged in production of both incandescent and fluorescent installations. While many of the older established manufacturers produce both, new entrants into the business tend to pick one type, most of them selecting the fluorescent branch.

Shipments of fluorescent lighting fixtures in 1947 were valued at 75 percent of the value of incandescent fixtures designed for substantially the same general lighting market. The manufacture of incandescent fixtures, however, is still a much larger field because of its production in categories such as motor vehicle lighting, searchlights, and flashlights, in addition to those items listed as competitive in some degree with fluorescent fixtures.

For commercial and institutional use, fluorescent fixtures outsold incandescent in 1947 by four to one. In overall industrial use, the newer type led by three to one. These advantages are offset by the smaller inroads made against incandescent lighting in the home, which is the largest market for lighting fixtures. Sales of incandescent units for residential use were double those of the fluorescent type.

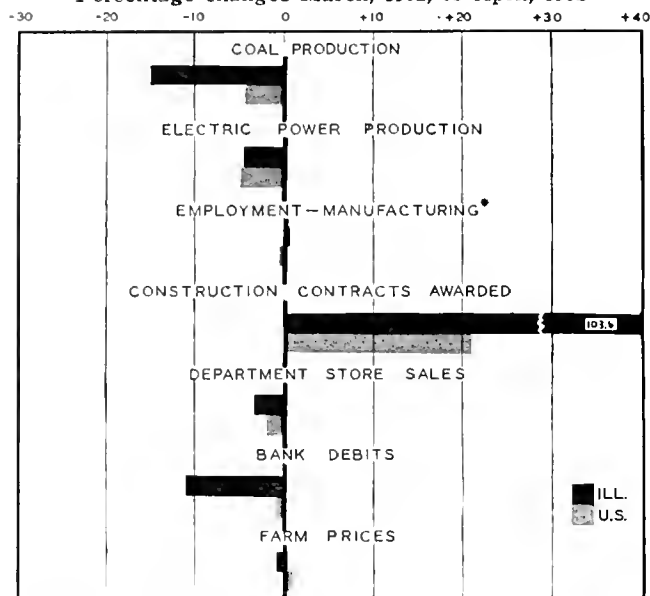
Demand for the products of the electric lamp industry is limited by the number of fixtures in operation. The great majority of lighting installations now in use were designed for incandescent bulbs. However, although residential lighting remains predominately incandescent, mixed fluorescent and incandescent fixtures are typical of current commercial practice and new fixture installations in the industrial field are largely of the fluorescent type.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes March, 1952, to April, 1952



*February, 1952, to March, 1952

ILLINOIS BUSINESS INDEXES

Item	April 1952 (1947-49 =100)	Percentage Change from	
		March 1952	April 1951
Electric power ¹	129.6	- 4.3	+ 4.5
Coal production ²	70.7	-15.0	-25.7
Employment—manufacturing ³ ..	105.0	+ 0.2 ^a	- 2.3 ^b
Payrolls—manufacturing ⁴	n.a.	.....	.....
Dept. store sales in Chicago ⁵ ...	95.8 ^c	- 3.2	- 3.5
Consumer prices in Chicago ⁶ ...	113.5 ^d	+ 0.2	+ 2.1
Construction contracts awarded ⁶	278.9	+103.6	+26.9
Bank debits ⁷	125.2	-11.1	+ 3.4
Farm prices ⁸	112.1	- 0.7	- 8.0
Life insurance sales (ordinary) ⁹ ..	137.3	+ 6.6	+11.2
Petroleum production ¹⁰	92.6	- 2.1	+ 0.8

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a February, 1952 to March, 1952. ^b March, 1951, to March, 1952. ^c Seasonally adjusted. ^d On 1935-39 base, the index was 193.1. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	April 1952	Percentage Change from	
		March 1952	April 1951
	Annual rate in billion \$		
Personal income ¹	258.9	+ 0.3	+ 4.0
Manufacturing ¹			
Sales.....	276.0 ^a	+ 5.0	+ 2.2
Inventories.....	42.5 ^{a, b}	+ 0.5	+15.2
New construction activity ¹			
Private residential.....	10.2	+ 5.9	- 5.8
Private nonresidential.....	9.7	+ 4.9	+ 2.1
Total public.....	9.8	+12.4	+16.9
Foreign trade ¹			
Merchandise exports.....	16.0	- 6.1	- 2.8
Merchandise imports.....	11.2	- 3.2	- 9.8
Excess of exports.....	4.8	-12.3	+18.4
Consumer credit outstanding ²			
Total credit.....	19.8 ^b	+ 1.1	+ 3.4
Installment credit.....	13.3 ^b	+ 1.1	+ 3.1
Business loans ²	20.8 ^b	- 2.7	+ 8.7
Cash farm income ³	24.6	- 1.3	- 1.7
	Indexes (1947-49 =100)		
Industrial production ²			
Combined index.....	117 ^a	- 1.8	- 3.1
Durable manufactures.....	128 ^a	- 2.5	- 1.1
Nondurable manufactures.....	107 ^a	- 2.1	- 7.1
Minerals.....	112 ^a	+ 0.6	0.0
Manufacturing employment ⁴			
Production workers.....	104 ^a	+ 0.2	- 3.2
Factory worker earnings ⁴			
Average hours worked.....	100	- 1.5	- 2.4
Average hourly earnings.....	125	+ 0.1	+ 4.9
Average weekly earnings.....	125	- 1.4	+ 2.4
Construction contracts awarded ⁵	209	+20.9	+16.2
Department store sales ²	103 ^a	- 1.9	0.0
Consumers' price index ⁴	113 ^a	+ 0.4	+ 2.2
Wholesale prices ⁴			
All commodities.....	112	- 0.4	- 3.8
Farm products.....	109	+ 0.5	- 7.5
Foods.....	108	- 1.1	- 3.4
Other.....	113	- 0.4	- 3.2
Farm prices ³			
Received by farmers.....	108	+ 0.7	- 6.1
Paid by farmers.....	116	+ 0.3	+ 2.1
Parity ratio.....	100 ^d	0.0	- 8.3

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ^a Seasonally adjusted. ^b As of end of month. ^c On 1935-39 base, 188.7. ^d Based on official indexes, 1910-14 =100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1952					1951
	May 31	May 24	May 17	May 10	May 3	May 26
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,552	1,492	1,398	1,338	1,429	1,623
Electric power by utilities.....mil. of kw-hr.....	6,811	7,146	7,110	7,039	6,949	6,653
Motor vehicles (Wards).....number in thous.....	98.1	117.8	119.9	120.2	118.3	150.7
Petroleum (daily avg.).....thous. bbl.....	.....	.....	.....	.....	6,203	6,081
Steel.....1935-39 =100.....	234.3	238.9	235.5	198.9	121.2	232.0
Freight carloadings.....thous. of cars.....	697	762	754	720	745	812
Department store sales.....1947-49 =100.....	96	105	99	117	111	100
Commodity prices, wholesale:						
All commodities.....1947-49 =100.....	112.0	112.0	111.6	111.5	111.9	115.9
Other than farm products and foods.....1947-49 =100.....	113.1	113.0	112.9	112.9	113.4	116.8
28 commodities.....August, 1939 =100.....	297.2	297.7	295.9	296.7	294.0	362.4
Finance:						
Business loans.....mil. of dol.....	20,524	20,636	20,707	20,723	20,796	19,129
Failures, industrial and commercial.....number.....	136	145	154	161	150	191

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Tool Shipments Up

Steps taken late in 1951 to break the machine tool bottleneck are apparently meeting with some degree of success. Output by the machine tool industry has increased to the point where shipments during April exceeded new orders received. At 310 percent of the 1947-49 average, shipments that month were the highest since mid-1943. New orders, on the other hand, have dropped steadily from the peak reached in the first quarter of 1951 to 294 percent of the 1947-49 average as the initial heavy demands of industrial programs for expansion and conversion have been met. Despite the greatly increased rate of production, however, machine tool builders still have large backlogs on hand, as illustrated by the wide gap between the shipments and new orders lines in the accompanying chart. In April the ratio of unfilled orders to the demonstrated production rate was 15 to 1.

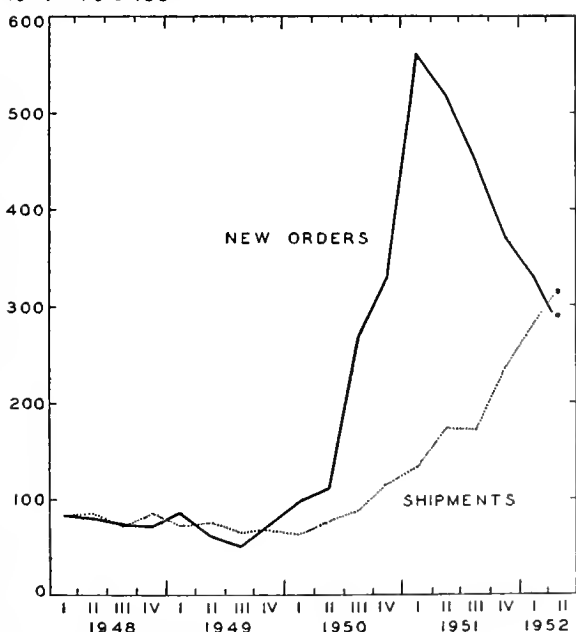
After the decision was made to "stretch-out" the mobilization program, order cancellations were common, but the rate of such cancellations has been dropping steadily. In the main, the lengthening of the mobilization period merely means the postponement of order placement.

Sales Recover

Part of the March decline in manufacturers' and retail trade was recovered in April. Manufacturers' sales after seasonal adjustment rose 5 percent to \$23.0 billion, in comparison with sales of \$23.3 billion during February. At retail, sales advanced nearly 2 percent to \$12.6 billion but remained below the February total. Durable goods showed the greater strength at both levels, although manufacturers' sales of nondurables were also up substantially. The rise in retail sales of durables reflected the large increase (nearly 10 percent) in sales by the automotive group. Only a fractional rise was indicated for sales of soft goods.

MACHINE TOOL ORDERS AND SHIPMENTS

1947 - 49 = 100



*APRIL DATA

Source: National Machine Tool Builders' Assn.

Manufacturers' inventories continued to expand during April, but increases were confined to durable goods. After seasonal adjustment, the book value of stocks of hard goods was up by \$200 million; nondurables inventory values remained unchanged.

Seasonal Gain in Employment

The number of workers with jobs rose more than one million between April and May, according to the Bureau of the Census. The gain was about evenly divided between agricultural and nonagricultural employment, with a slightly larger number of added workers taking farm jobs. Workers coming into the labor force accounted for nearly all the expansion in employment, with only a small number of laborers being drawn from the unemployed group. At 54,216,000, nonfarm employment was well above the level of May, 1951; total employment was virtually unchanged from the year-ago level. Unemployment in May was the lowest since August last year. Bureau of Census data, in thousands of workers, are as follows:

	May 1952	April 1952	May 1951
Civilian labor force.....	62,778	61,744	62,803
Employment.....	61,176	60,132	61,193
Agricultural.....	6,960	6,412	7,440
Nonagricultural.....	54,216	53,720	53,753
Unemployment.....	1,602	1,612	1,609

Disputes attracted most of the attention given labor relations during May. The long-heralded steel strike was on again the first week of the month, off again for three weeks, and on again June 2 as management, workers, and government moved from one court decision to another until the United States Supreme Court decided the Administration had no power to seize the mills. About 600,000 steel workers were directly affected; employment in steel-using factories will be affected as supplies are reduced.

Nearly 90,000 oil workers went on strike April 30 for higher wages. After the Wage Stabilization Board announced in mid-May that it would approve increases of no more than 15 cents an hour, settlements were made between the various unions and companies on that basis. May 23 witnessed the end of the 21-month-old dispute between the railroads and three operating brotherhoods. New contracts to be in effect for 16 months provided for higher wages and changes in working rules.

Corporate Profits Down

Manufacturing corporation profits after taxes in 1951 dropped 12 percent below the 1950 level, according to a joint report of the Federal Trade Commission and the Securities and Exchange Commission. Profits before taxes were 12 percent higher than in the previous year and were the highest of the postwar period. However, a \$4.2 billion increase in Federal taxes cut net income after taxes from \$12.9 billion in 1950 to \$11.4 billion in 1951. Dividend payments were reduced from \$5.6 billion in 1950 to \$5.4 billion in 1951.

Percentage changes from 1950 to 1951 varied widely among the 22 industrial groups covered. Profits before taxes increased for 16 industries; seven—paper and allied products, rubber, nonelectrical machinery, petroleum, printing and publishing, primary nonferrous metals, and primary iron and steel—showed rises of 25 percent or more. For the remaining six of the 22 industries, profits dropped from 5 to 22 percent, with the largest

declines occurring in industries producing leather goods, apparel and finished textiles, and motor vehicles. After taxes, however, only four of the 22 industries — printing and publishing, petroleum, primary nonferrous metals, and nonelectrical machinery — showed profit increases; and in only one case were profits up more than 5 percent (petroleum, with a 19 percent gain).

Loans Support Defense

To a considerable extent, business loans since the outbreak of war in Korea have been made to defense or defense-supporting industries. In the nine months following June, 1950, substantial loans were obtained by businesses to carry inventories, but since the middle of last year, the expansion in business loans has largely reflected seasonal needs and, increasingly, the needs of those industries involved directly or indirectly in the mobilization program.

Outstanding loans of the largest member banks to firms in metals, metal products, petroleum, coal, chemical, and rubber industries rose more than \$2.5 billion during the year ended April 23, 1952; loans to manufacturers in other lines and to mining firms rose only \$60 million. As shown in the accompanying chart, loans to manufacturers of metals and metal products were more than \$2.1 billion greater at the end of April than they had been a year earlier. Public utilities increased their borrowing by \$500 million. Industries manufacturing consumer items have cut their borrowing substantially during the period; loans to textile firms, which have been suffering from depressed sales for more than a year, dropped well over \$200 million.

Farm Prospects Less Bright

Recent reports by various government agencies indicate that farmers will continue to be squeezed between lower income and higher costs this year. Prices received for many farm commodities are still declining from the February, 1951, peak, whereas prices paid for commodities, interest, taxes, and wage rates advance. On May 15, prices received were 293 percent of the 1910-14 average, 6.4 percent below the peak, but prices paid rose 4.7 per-

cent during the 15-month period to 289 percent of the average. As a result, the parity ratio dropped from 113 to 101. The Department of Agriculture has estimated that farmers grossed \$8.7 billion during the first four months of 1952, 3 percent more than in the corresponding four months of 1951. At the same time, however, costs were about 5 percent higher. And despite predictions of strong demand for farm products, it appears that gross farm income is leveling off as prices for most products weaken. With further increases in costs expected, a decline of 3 percent to 5 percent in buying power from last year is foreseen by the Department.

Moderate Rise in National Product

Gross national product continued to rise during the first quarter of this year and reached a total of nearly \$340 billion. For the second consecutive quarter there was an increase of \$5.1 billion over the previous three-month period. Larger physical volume was the chief factor in the most recent advance since prices have remained fairly steady. Personal consumption expenditures have risen only slightly during the last year, entirely on the strength of increased spending for services and nondurable goods. Consumers' purchases of durable goods have remained about steady between \$25 billion and \$26 billion.

GROSS NATIONAL PRODUCT OR EXPENDITURE (seasonally adjusted, billions of dollars at annual rates)

	1st Qtr. 1952	4th Qtr. 1951	1st Qtr. 1951
Gross national product.....	339.7	334.6	319.5
Personal consumption.....	209.6	206.7	208.8
Durable goods.....	25.0	25.0	31.3
Nondurable goods.....	115.6	113.6	112.1
Services.....	69.0	68.1	65.4
Domestic investment.....	53.4	54.6	60.2
New construction.....	22.7	20.7	23.8
Producers' durable equipment	30.4	29.0	25.9
Changes in business			
inventories.....	.2	4.9	10.6
Nonfarm inventories only..	-1.2	3.3	9.1
Foreign investment.....	2.0	2.5	-2.7
Government purchases.....	74.7	70.7	53.2

INCOME AND SAVINGS

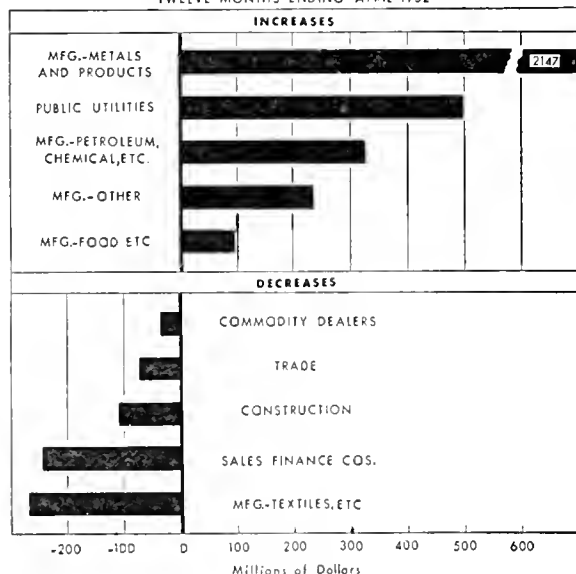
National income.....	n.a.	280.1	269.4
Personal income.....	257.9	257.0	244.1
Disposable personal income.....	226.3	227.2	216.5
Personal saving.....	16.7	20.5	7.8

Diverse movements are reflected in the decline in gross private domestic investment. New construction has remained high and investment in producers' durable equipment has increased fairly consistently. However, the inventory adjustment which has been under way since the second quarter of 1951 continued, with the result that virtually no addition to total stocks occurred during the first quarter of this year. Nonfarm inventories, in fact, showed a cut of \$1.2 billion, in contrast to the large increases last year.

Government purchases of goods and services rose \$4 billion from the previous quarter to a total of \$74.7 billion at annual rates. By far the greater portion of the increase reflected purchases by the Federal government for defense purposes, which accounted for 13 percent of first quarter GNP compared with 8 percent a year earlier. The rate of increase in defense expenditures has slowed in recent months as the armed forces have reached their scheduled strength and necessary stockpiles of soft goods have been built up. In consequence hard goods and construction are taking a growing share of the total.

CHANGES IN BANK LOANS

TWELVE MONTHS ENDING APRIL 1952



Source: Federal Reserve Board.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Shell Molding Process

A new molding process which promises to cut costs and to sharply increase foundry efficiency was spotlighted at the show of the American Foundry Congress at Atlantic City in May. At least three major chemical companies are promoting the new technique, known as "shell molding," which uses molds made of a mixture of phenolic resin and sand. The three concerns are the Borden Company, the Monsanto Chemical Company, and the Bakelite Company. Some of the new equipment shown reduces molding activity to push-button operation which can be performed by unskilled labor. The process gives a higher yield per ton of metal poured and lower scrap metal loss. It also makes for cleaner production and uses 90 percent less sand than conventional methods. By permitting closer tolerances it results in less machining. It is not suggested that the shell molding technique will displace all other foundry methods, however. At the present time it is being used to make automotive parts, railroad castings, plumbing fixtures, and many other products, but it is adaptable only to certain metals and has an upper weight limit per casting of about 200 pounds.

New Clay Brick

Production of a new structural clay product that is said to cut the cost of masonry walls and thus bring solid brick homes into the competitive price market with frame units has been announced by the Structural Clay Products Institute (1520 18th St., N.W., Washington 6, D.C.) The product, named SCR brick, is now available to builders. It is approximately six inches in thickness and is described as a "through-the-wall" unit requiring no back-up material. The brick looks the same as standard Norman brick, but has ten holes cored vertically to lighten its weight. With it a mason can build from 60 to 100 percent more wall area per day.

County Income Estimates

A Report of the Conference on the Measurement of County Income for Seven Southeastern States has been published by the University of Virginia. The conference, which included the Universities of Alabama, Georgia, Kentucky, Mississippi, North Carolina, Tennessee, and Virginia, was organized to develop income data by counties to aid in plant location, sales promotion and sales management, government finance, resource development, and research projects. Its purpose was to present not so much a series of county income estimates as a method that can be used in any state to obtain estimates of county income which are comparable in concept and content both with similar estimates elsewhere and with the state data in the historical series of the Department of Commerce.

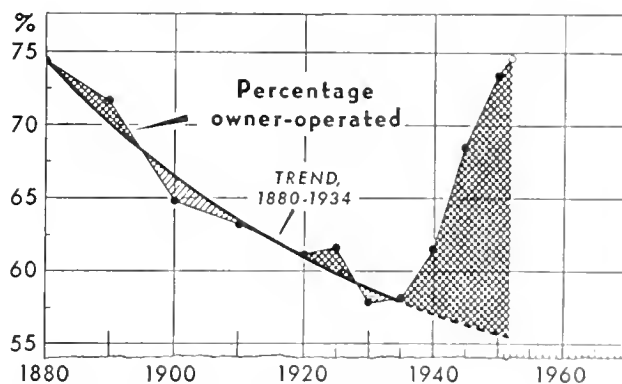
It was decided to accept the concepts and definitions of the state income series of the Department of Commerce and to secure county estimates by distributing the several components to the counties. Associated data for total and per capita income payments by type of payment and source of payment for the counties were assembled for the two years covered, 1939 and 1947. Each county's share in the associated series was expressed as a percentage of the state total. The Department of Commerce state

total for the item was then distributed to the counties by multiplying it by each of the county ratios.

Increase in Farm Ownership

The recent climb in farm ownership, seen in its historical perspective, is the topic of an article in the May issue of the *Agricultural Situation* (a monthly publication of the Bureau of Agricultural Economics, United States Department of Agriculture, Washington 25, D. C.). The striking decline in the percentage of farms operated by tenants, from 42 percent in 1930 to 27 percent in 1940, and still less today, has wiped out the increase in tenancy that had developed over the preceding five or six decades. The accompanying chart shows that trend in terms of farms operated by owners. Had the downward trend continued, only about 55 percent of the nation's farms would be owner-operated instead of nearly 75 percent. Much of the rise in ownership proportion reflects the decline in tenancy in the South and in the Great Plains area. In spite of the absolute decline in the total number of farms there are about a quarter of a million more farms operated by owners today than in 1930. A study of the tenure trend shows a tendency for ownership to decline with industrial depressions and to strengthen with prosperity. The unusual sharp uptrend after 1932 has been associated with the agricultural-industrial recovery programs of the 1930's and with the growth of mechanization and productivity that the improved farm income made possible.

PERCENTAGE OF FARMS OWNER-OPERATED



Source: U. S. Department of Agriculture

Chemical Ore Extraction

New techniques that are said to bring about important economies in metals production have been announced by the Chemical Construction Corporation, a subsidiary of the American Cyanamid Company. The processes involve the treatment of ore concentrates by chemical methods instead of the usual smelting and refining techniques. Compared with conventional methods, production costs of chemically processing ore concentrates or low grade scrap to yield pure metals or their oxides should be considerably lower. Although an experimental pilot plant has been in operation at Linden, N.J., the first commercial use of the process will begin this summer when Chemical Construction expects to complete the building of a cobalt refinery near Salt Lake City.

THE OUTLOOK FOR RETAIL TRADE

ROBERT G. SEYMOUR, Acting Director, Business Management Service

The prospect for retail sales for the remainder of 1952 and on into 1953 is favorable, as indicated by the following review of the factors that integrate into what we are accustomed to calling retail business conditions.

By way of background, the accompanying chart shows the progress of retail sales since the beginning of 1950. Dollar volume has increased steadily in the nondurable and food lines. Sales of durables have declined dollarwise since the two post-Korean buying sprees in the third quarter of 1950 and first quarter of 1951. Only in the food lines, however, has physical volume been fully maintained.

Seasonally adjusted dollar sales in the first quarter of 1952 amounted to \$37.9 billion, about 4 percent less than in the same quarter of 1951. Durable goods declined from \$14.8 billion to \$12.6 billion over the same period, or almost 15 percent. Nondurable goods rose from \$24.8 billion to \$25.3 billion, an increase of 2 percent.

It is apparent that the large decline in durables dominated the movement of the total. Their 1951 volume was abnormally high, and the 1952 record to date shows marked strength, even though at a somewhat lower level. In April, the latest month for which data are available, dollar sales were 3 percent higher than in 1951, with the greatest increase showing in the durables lines.

In the department store sales index, April, 1952, is about 6 percent higher, and May, 1952, about 5 percent higher than the corresponding months in 1951. The increase in physical volume was somewhat smaller, because prices moved up a little in this period.

Consumer Purchasing Power

The outlook for purchasing power is encouraging. In the government sector, Federal expenditures for military defense and foreign aid are running \$800 million per week, an increase of \$300 million since a year ago. An effective armistice in Korea might set off a reaction causing the military spending program to falter; but with our continued efforts to bolster and defend weak economies elsewhere in the world, it hardly seems likely that total Federal outlays will be reduced.

Another positive force in sustaining purchasing power is the prevailing high employment, with average weekly earnings still at peak levels. Coupled with the favorable employment picture is the continued pressure to push wages upwards in major industries, as witness the disputes in steel, petroleum, communications, and transportation. According to the Federal Reserve Board's Survey of Consumer Finances, more than 40 percent of nonfarm units were earning more money at the beginning of 1952 than a year earlier. The conclusion is plain that American consumers have the ability to buy and pay for merchandise in the same or greater volume as in 1951.

This is true even taking into account the increases in taxes and in prices which have eaten away at consumers' incomes during 1951. It is interesting to note at this point that about one-third of the respondents in the FRB survey were of the opinion that 1952 price increases would outrun income increases. Despite these considerations, however, there is not much evidence to indicate a decline in purchasing power in 1952.

Consumer Willingness to Buy

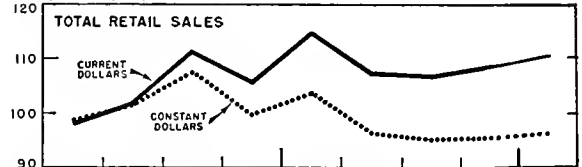
Retail distributors face a more serious question in consumers' willingness to buy. Recent studies report an extraordinary increase in personal savings since 1946. The increase from 1950 to 1951 was from \$10.5 billion to \$17.0 billion, or over 60 percent. Saving has continued into 1952 at the rate of 8-9 percent of disposable personal income. This indicates the existence of a substantial margin of buying power available after basic expenditures for food, clothing, and housing requirements have been made. This purchasing power can be withheld from or put back into the market place at will. Automobile and major appliance dealers felt the withholding after the first quarter of 1951. The FRB survey found that six out of ten consumers with opinions felt that the current year is not a good time to buy major durable goods because prices are too high. Fewer respondents expected to buy a new car during 1952 than the survey reported for 1951. The same was true for major household goods, even though there was no decline in the number that expected to buy houses or build them.

The conservative nature of consumer plans to buy durables during the next 12 months may be due to the

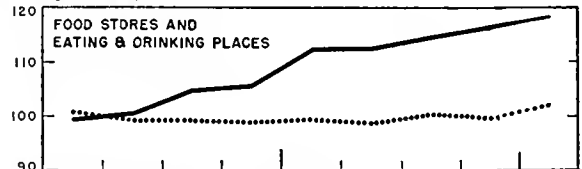
THE CONSUMER IN 1951

Spent more at retail stores than in 1950 but in real terms purchased less.

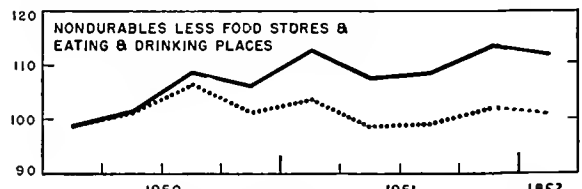
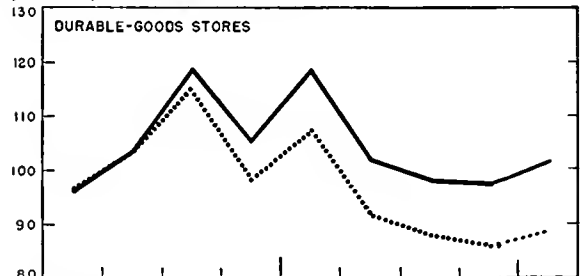
Index, quarterly Avg. 1st half 1950 = 100



Only for FOOD did he maintain real purchases throughout the year.



At other stores real purchases were less in 1951, particularly for durables.



Source: U. S. Department of Commerce.

fact that the market for those items is much closer to the saturation point than at any time since World War II. Thus, the emphasis seems to be shifting from original purchase to replacement of postwar merchandise. Normal repurchases may be resumed in the latter half of 1952, but no extraordinarily heavy buying is expected. On the whole, it appears that 1952 and 1953 will be marked by continued caution on the part of consumers.

Availability of Merchandise

The outlook for obtaining merchandise to sell is improving daily. Barring a drawn-out steel strike, the time is fast approaching, according to recent reports, when steel will no longer be as short as in the past. Very few shortages in other lines are being reported.

In most lines of merchandise, including major appliances, floor coverings, and others that have been out of balance at some time since 1950, retailers were placed on quotas by manufacturers and allowed to purchase only limited supplies. Since mid-1951, the need for allocating merchandise has been receding, and inventories have been building up faster than the manufacturers like. For example, several refrigerator makers have cut production to allow inventories to get into line. Soft goods, as implied earlier, have been and are plentiful. Price promotions are becoming common in these lines. A recent release reports that a large shirt manufacturer has closed four plants temporarily to let sales catch up with production.

The Effects of Restrictive Controls

The fourth factor to be considered is the presence or absence of controls that affect retail sales. There has been some feeling that Regulation W put a damper on sales of automobiles and major appliances and that the recent elimination of that credit control would stimulate sales. While there was a temporary spurt in sales of automobiles, it did not carry over with the same force to appliances or to television. This fact lends support to the position that the 1951 decline in sales of consumer durable goods was due to a general market saturation and not to credit restriction. At this writing, the ultimate effect of lifting the restriction has not had time to be properly evaluated, but it should not be overestimated.

Regulation X, governing credit on new houses, has been relaxed as of June 11. Housing starts are expected to increase from the already high level of 108,000 in April, 1952. The housing market is still strong, and the suspension of Regulation X could be expected to stimulate new activity in the home furnishings field. The unfreezing of television transmission will stimulate sales of television receivers although the effect may not be felt until 1953.

The prospect now is that most price controls will either be dropped or placed on stand-by status. It is not expected that such action will intensify the inflationary movement significantly, though there may be a brief spurt at first. Supplies of some consumer commodities are so large that prices have weakened since the first of 1952. Although the April cost of living index is up from 184.6 in 1951 to 189.6 in 1952, increases in rent have had an important influence on this index.

The year 1951 was the year of the big profit squeeze on retailers. Sales increased dollarwise in all except the durable lines, but margins were held down by competition and price controls. Meanwhile personnel, transportation, supplies, and other retailing expenses pushed upward.

Even when operating profits were made by retailers, 1951 brought increased taxes and left net profits at the lowest level in several years. The annual Harvard report on Department Store Operations states that 1951 net profits fell 39 percent to 2.3 percent of sales, compared with 3.85 percent in 1950. In order to combat that trend, retailers should be and are seeking new merchandising methods and adapting those used in other types of distribution. The trend toward higher wage rates in retailing is inevitable, and hence there will be a continued trend toward self-service, self-selection, and other personnel-saving techniques in stores of all kinds in 1952 and 1953.

In summary, the forces of inflation and deflation are in delicate balance, with large public expenditures bolstering the economy on the one hand, and consumers exercising restraint in spending their incomes on the other. Purchasing power and goods to buy are both available and contribute to high retail volume; the outlook continues favorable for these factors. Suspension or relaxation of controls will help the sales picture. The retail cost and profit squeeze will continue. The big question mark for the future is the consumer's willingness to buy. He is responding to new products better than to more established lines. Retail sales will be at a high level, but retailers may well find that more assiduous promotion and salesmanship will be required to maintain unit volume.

Continuing the Upward Trend

(Continued from page 2)

during the next year. The increase in gross national product will in all probability be comparable in magnitude to the advances of the last two years. A significant change in trend could occur only as the result of a drastic change in the international situation.

With such an advance, there will be continuing pressure on the labor supply. Additional workers will be drawn into employment, and unemployment will continue at a minimum. Working hours will rise again in some areas. Under these conditions, wage rates may be expected to go up by the full amount of increases in cost of living, productivity, and overtime premiums—or at a rate of something over 5 percent a year.

Prices will also tend upward, though there is nothing in the picture at present that definitely calls for any rapid advance. As the drive for increased production moves into the later stages, productivity usually increases more rapidly, and this factor may compensate the bulk of the next year's wage increases. Business generally seems to feel that the lesson of 1951 is restraint in pricing. A new upsurge seems likely to occur only if something touches off another wave of unrestrained buying. Such a movement seems more likely to originate in international developments than in any economic changes in this country.

One of the oddities of business cycle psychology is that loss of confidence in the price structure is greatest at the lows, when recovery is imminent. Currently, we are bombarded with the most pessimistic predictions, widespread acceptance of the idea that a "buyers' market" is at hand, and easing of controls to halt the decline. In the next phase, attitudes will again reverse, but the change will be equally transitory. When wages and prices are again firming up, there will be strong appeals for anti-inflationary action; but the inflationary pressure that might develop in any situation that does not lead on to all-out war is bound to be short-lived.

VLB

LOCAL ILLINOIS DEVELOPMENTS

Business indexes for Illinois indicate lessened activity during April, but in some cases much, if not all, of the decline reflected seasonal factors. In the electric power and coal industries seasonal elements accounted for a large part of the drop, although the steel strike probably had some effect.

Construction contracts awarded were more than double the previous month and were one-fourth higher than in the corresponding month of 1951. Department store sales made a poor showing, both in the city of Chicago and in the seventh Federal Reserve district as a whole. Sales were below April, 1951, and below the previous month after seasonal adjustments were made. Output of steel by mills in the Chicago district fell sharply from March to April, dropping 20 percent to 1,583,000 tons. The operating rate for the month was cut to 87 percent of capacity by the dispute between the United Steel Workers and the steel companies.

Small Changes in Nonfarm Employment

Nonagricultural employment in the State has remained fairly steady so far this year and in March was only slightly above the March, 1951, level. The number of nonmanufacturing workers on the job was somewhat higher during the first three months of 1952 than it was in the first quarter of 1951 (see chart). Substantial gains in employment in contract construction; finance, insurance, and real estate; services and miscellaneous industries; and government were partially balanced by decreases in mining and related industries and in transportation and public utilities.

In contrast, manufacturing employment has fallen below last year's level. Decreases have occurred both in durable and in nondurable goods manufacturing, with a larger decline in employment in nondurables. Among the durables, furniture and fixtures, glass and allied products, and fabricated metal products have shown substantial

declines. Additions to the number of workers in the machinery, transportation equipment, and instruments industries partly offset these drops, however.

Large Seasonal Rise in Construction

The doubling of the value of construction contracts awarded from March to April was partly the result of seasonal factors. Increased activity in the public works and utilities sector (up 122 percent) and in nonresidential work (224 percent higher) largely accounted for the increase. A 20 percent rise in commercial building was dwarfed by the eightfold boost in contracts awarded for manufacturing buildings. Residential building continued to lag behind other segments with a rise of 18 percent.

April contract awards were well ahead of those made in April of 1951, chiefly because of the large advances in nonresidential and public works and utilities construction. The same groups were also the main factors in the rise of nearly 11 percent shown for the first four months of this year in comparison with the corresponding period of last year.

One of the largest utilities programs contemplated is a half-billion dollar project being planned by Commonwealth Edison in Chicago. The company expects to raise no less than \$300 million during the next three years for expansion and anticipates adding \$200 million from internal funds. Work has already been started on a new substation in Chicago; when finished it will be the largest of its kind in the country.

Retail Sales

Estimated retail sales in all but one of the 18 large Illinois shopping areas were higher in April than in the preceding month. Increases ranged from 0.9 percent in Alton to 9.1 percent in Danville. To a large extent, the higher sales value reflected late Easter shopping. Elgin was the only large city to register a drop, 5.4 percent. In contrast, all but two cities showed declines in comparison with April, 1951. In this case, decreases ranged from 0.5 percent (Danville) to 13.0 percent (Elgin). In both comparisons, month-to-month and year-to-year, Danville made the best showing and Elgin the poorest.

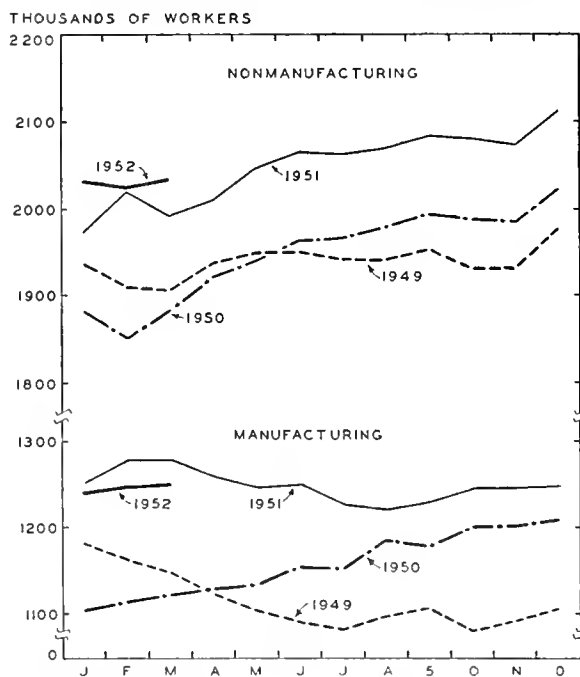
April, 1952, sales were higher than in April, 1951, in only two cities, Joliet and Kankakee. The reductions in April, 1952, sales from April, 1951, levels are of particular interest since Easter occurred in March in 1951 and provided no stimulus to April sales, whereas the date of Easter this year was April 13, so that a considerable portion of holiday buying presumably occurred early in April.

Department store sales indicate a more favorable picture. All the cities for which percentage changes were calculated by the Chicago Federal Reserve Bank showed increases over March, the rises varying from 5.6 percent to 27.8 percent. Department store sales rose in all but two cities, Kankakee and Rockford, on a year-to-year basis.

Good Crop Outlook

The Illinois Department of Agriculture reported at mid-May that crop prospects for 1952 are good. Fall and spring sown grains are in good shape and planting conditions for corn and soybeans have been favorable. This year's wheat harvest was estimated at 38.7 million bushels as compared with 1951 production of 33.4 million bushels, and a 10-year average of 26.9 million bushels.

NONAGRICULTURAL EMPLOYMENT



Source: Illinois Department of Labor.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

April, 1952

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁵ (000,000)	Postal Receipts ⁶ (000)
ILLINOIS							
ILLINOIS		\$25,149 ^a	891,904 ^a	\$494,303 ^a		\$10,948 ^a	\$12,237 ^a
Percentage Change from	{ Mar., 1952...	+11.1	+4.5	+2.2	+7.8	-11.1	-1.4
	{ Apr., 1951...	+18.7	+4.9	-6.7	+1.9	+3.4	+17.6
NORTHERN ILLINOIS							
Chicago							
Chicago		\$18,773	692,999	\$364,861		\$9,971	\$10,582
Percentage Change from	{ Mar., 1952...	+17.3	-5.5	+1.2	+0.6	-11.7	-1.7
	{ Apr., 1951...	+37.8	+5.1	-7.4	+0.4	+3.0	+17.6
Aurora							
Aurora		\$ 263	n.a.	\$6,749		\$ 41	\$ 85
Percentage Change from	{ Mar., 1952...	-21.5		+2.7	+26.9	-10.8	+1.8
	{ Apr., 1951...	-53.4		-6.4	+4.4	+6.0	+4.4
Elgin							
Elgin		\$ 319	n.a.	\$4,674		\$ 26	\$ 89
Percentage Change from	{ Mar., 1952...	+30.2		-5.4	+21.7	-12.6	-2.1
	{ Apr., 1951...	+25.1		-13.0	+8.8	-1.5	+44.9
Joliet							
Joliet		\$1,004	n.a.	\$9,769		\$ 50	\$ 76
Percentage Change from	{ Mar., 1952...	+300.0		+7.8	+14.0	-5.7	-19.3
	{ Apr., 1951...	+164.9		+6.2	+9.4	+18.0	+9.4
Kankakee							
Kankakee		\$ 260	n.a.	\$4,541		n.a.	\$ 30
Percentage Change from	{ Mar., 1952...	+108.0		+8.9	+8.8		-2.5
	{ Apr., 1951...	0.0		+0.6	-0.1		+1.8
Rock Island-Moline							
Rock Island-Moline		\$1,023	17,763	\$8,948		\$ 33 ^b	\$ 135
Percentage Change from	{ Mar., 1952...	+64.7	+4.9	+2.1	n.a.	-5.4	-10.4
	{ Apr., 1951...	+43.3	+2.7	-6.6		+8.7	+2.1
Rockford							
Rockford		\$ 775	27,334	\$14,959		\$ 127	\$ 206
Percentage Change from	{ Mar., 1952...	-71.7	-2.2	+4.8	+20.0	-8.1	+7.9
	{ Apr., 1951...	-14.3	-0.3	-6.8	-13.9	+4.4	+13.7
CENTRAL ILLINOIS							
Bloomington							
Bloomington		\$ 422	6,066	\$4,910		\$ 46	\$ 154
Percentage Change from	{ Mar., 1952...	+208.0	+1.6	+8.1	n.a.	-9.8	+35.3
	{ Apr., 1951...	-25.7	+26.7	-8.7		+5.5	+79.9
Champaign-Urbana							
Champaign-Urbana		\$ 148	8,074	\$6,658		\$ 51	\$ 81
Percentage Change from	{ Mar., 1952...	-23.7	-0.4	+5.6	n.a.	+0.7	-2.7
	{ Apr., 1951...	-15.4	+6.9	-7.4		+14.1	+3.7
Danville							
Danville		\$ 136	7,561	\$5,638		\$ 40	\$ 52
Percentage Change from	{ Mar., 1952...	-36.4	-1.7	+9.1	+6.8	-2.7	-0.3
	{ Apr., 1951...	-30.6	-0.2	-0.5	+12.8	+7.4	+4.4
Decatur							
Decatur		\$ 287	21,133	\$8,628		\$ 78	\$ 105
Percentage Change from	{ Mar., 1952...	+10.7	+4.2	+5.9	+16.7	-14.5	-1.2
	{ Apr., 1951...	-36.2	+13.2	-4.9	+0.4	+8.7	+15.5
Galesburg							
Galesburg		\$ 110	5,779	\$3,742		n.a.	\$ 31
Percentage Change from	{ Mar., 1952...	+5.8	-2.6	+8.9	n.a.		+5.2
	{ Apr., 1951...	-34.1	+7.1	-7.6			+10.6
Peoria							
Peoria		\$ 562	46,984 ^c	\$16,828		\$ 212	\$ 204
Percentage Change from	{ Mar., 1952...	+37.7	-0.0	+8.0	+5.6	+2.0	-0.2
	{ Apr., 1951...	-39.2	+3.5	-5.9	+5.7	+15.4	+20.3
Quincy							
Quincy		\$ 231	6,683	\$4,399		\$ 33	\$ 73
Percentage Change from	{ Mar., 1952...	+90.9	-1.7	+4.2	+18.0	-4.8	+3.8
	{ Apr., 1951...	-9.4	-9.0	-7.3	+5.0	+2.5	+13.6
Springfield							
Springfield		\$ 310	23,971 ^c	\$11,918		\$ 83	\$ 206
Percentage Change from	{ Mar., 1952...	-10.9	-3.6	+1.8	+27.8	-6.9	-7.5
	{ Apr., 1951...	-12.2	+11.8	-5.7	+47.1	+9.8	+10.5
SOUTHERN ILLINOIS							
East St. Louis							
East St. Louis		\$ 226	12,296	\$8,568		\$ 126	\$ 55
Percentage Change from	{ Mar., 1952...	+3.2	+5.3	+3.8	n.a.	+1.9	-0.6
	{ Apr., 1951...	+179.0	-3.6	-2.8		-0.7	+25.3
Alton							
Alton		\$ 238	10,319	\$4,265		\$ 29	\$ 28
Percentage Change from	{ Mar., 1952...	-18.5	-5.2	+0.9	n.a.	-1.2	+5.6
	{ Apr., 1951...	+67.6	-2.2	-5.3		+6.4	+10.2
Belleville							
Belleville		\$ 62	4,943	\$3,890		n.a.	\$ 45
Percentage Change from	{ Mar., 1952...	-1.6	-2.2	+8.3	n.a.		+19.1
	{ Apr., 1951...	-28.7	+7.1	-1.5			+34.4

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for March, 1952, the most recent available. Comparisons relate to February, 1952. ⁴ Research Department of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

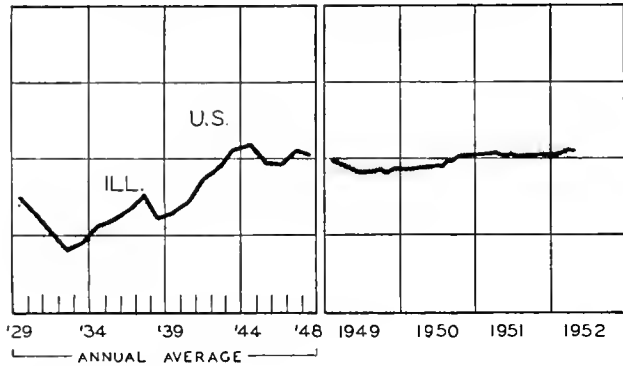
^c Includes immediately surrounding territory.

n.a. Not available.

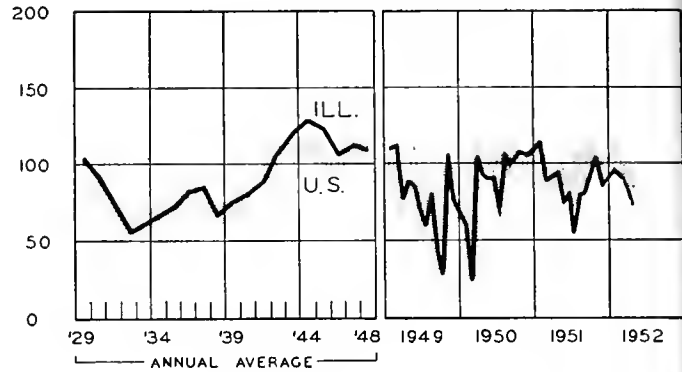
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

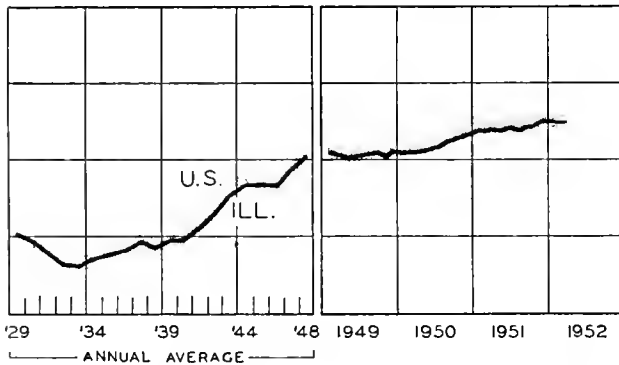
EMPLOYMENT - MANUFACTURING



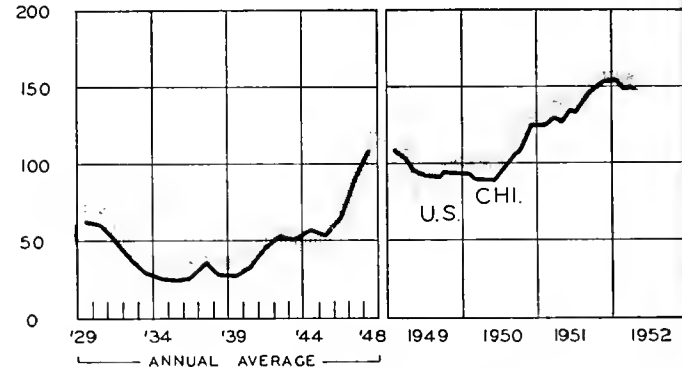
COAL PRODUCTION



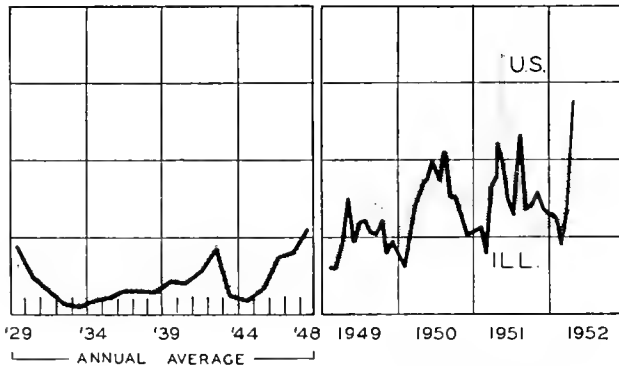
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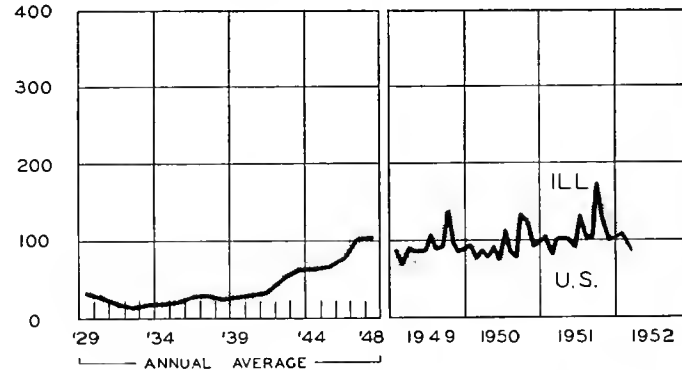
BUSINESS LOANS



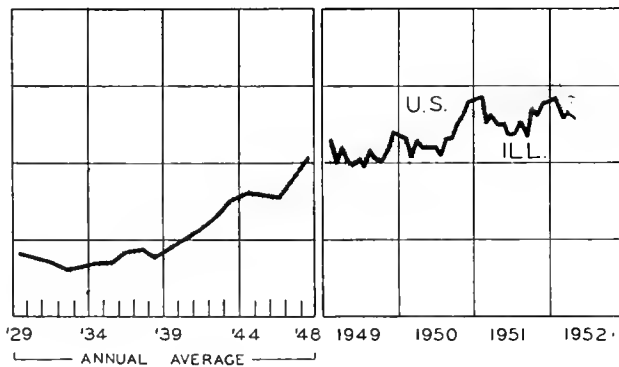
CONSTRUCTION CONTRACTS AWARDED



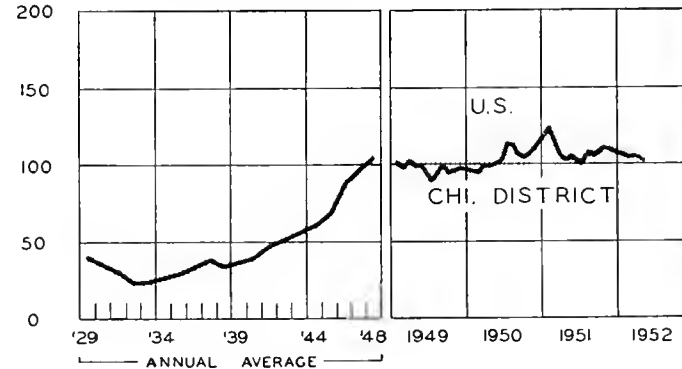
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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NUMBER 7

HIGHLIGHTS OF BUSINESS IN JUNE

The tempo of industrial activity faltered in June as the effect of the steel strike began to spread to the users of steel. With steel production down to 12 percent of rated capacity, layoffs and reduced scale of operations were increasingly frequent by the end of the month as inventories neared exhaustion. As a result, the Federal Reserve Board index of industrial production for June is estimated to have declined 12 points to 202 percent of the 1935-39 base period. In June, 1951, the index stood at 223.

The nation's auto plants produced 2.8 million vehicles in the first half of this year, 2.2 million of which were passenger cars. This is considerably below the 3.9 million vehicles produced in the first half of 1951. Material allotments were the principal cause of the decline.

Military Deliveries Rising

The military supply picture has brightened considerably since last fall. Despite the steel strike, the military forces received \$8 billion worth of hard goods and construction in the second quarter of this year, according to the Office of Defense Mobilization. This is about three-fourths of the way toward the \$10.5 billion quarterly rate of expenditures scheduled to be reached in early 1953. Aircraft and tank production is reported to be rising rapidly, with aircraft deliveries exceeding 800 per month and deliveries of the new M-47 tank running at 300 per month.

At the same time, more than half of all the industrial expansion projects receiving special tax treatment are now in place. Expansion goals in such basic industries as steel, aluminum, petroleum refining, and electric power are rapidly being attained, and with the easing of supplies of most materials, stockpiling operations have been accelerated.

Wholesale Prices Edge Downward

Wholesale prices declined gradually during most of June and at the end of the month averaged about 1.2 percent below their level at the end of May. The largest declines were reported in the prices of potatoes, livestock, poultry, and zinc.

The consumers' price index in the month ended May 15 climbed to within 0.1 percent of the record high of 189.1 percent of the 1935-39 average reached last January.

Higher food prices and increased rents were mainly responsible for the rise. This new level represents a 4.1 percent gain above the index figure for January, 1951, when price and wage controls were first imposed.

A full-scale revision of the consumers' price index to increase its representativeness is now underway. The coverage of the index is being extended to include all urban wage earners and clerical workers (only "moderate" income families are included at present) and to include small and medium-size cities as well as large cities. Nearly 40 percent more items will be priced in the new index, which is scheduled to be ready by next January.

Construction at Midyear Peak

Construction expenditures in June totaled almost \$3 billion, 7 percent more than in June, 1951. Private outlays remained at much the same level as last June's \$1.9 billion, but public construction expenditures registered a 23 percent gain. A declining trend was evident in factory building activity, indicating that a large proportion of the current industrial expansion program had been completed.

The value of new construction put in place in the first half of this year amounted to nearly \$15 billion, four percent above the first six months of 1951 and a new record for the period. An 8 percent decline in private homebuilding was more than offset by substantially larger expenditures for military facilities, industrial expansion, and public utility construction.

Federal Budget Cut

With the 82nd Congress winding up its operations, it looks as if the Federal government will have to conduct its affairs in the fiscal year that began July 1 with considerably less than it requested. The Congress cut out more than \$9 billion, or 10 percent, from the \$89 billion budget originally submitted by President Truman. The largest reductions were in the \$46.6 billion appropriation for the military forces, cut \$5 billion, and in the \$11.8 billion appropriation for foreign aid and military construction and atomic energy facilities, cut \$1.9 billion. Some civilian agencies took even larger percentage cuts in their budgets, though the amounts involved were much smaller.

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Why Controls Were Extended

With everyone standing pat on established positions, the steel controversy has resisted all efforts at settlement. The main outstanding issue between the industry and its workers is the union shop. President Truman, denied new powers by Congress, refuses to invoke the Taft-Hartley Act on the ground that all the postponement it calls for has already been granted voluntarily.

As a result, the strike has dragged on for more than a month. The first two or three weeks merely served to reduce inventories, which were ample, and in some cases more than ample. Before the month was out, however, liquidation had passed the stage of a comfortable readjustment. Layoffs had begun in many steel-consuming industries, and recent reports from Detroit indicate that unemployment there has risen to a new high as auto plants were forced to shut down.

Growing more serious each day the strike continues is the backlog of unsatisfied demands. As the shortage accumulates, it not only ensures realization of whatever price increase is granted in the settlement, but encourages black markets and builds inflationary pressure through a wide sector of the economy. A further threat arises from the fact that iron ore shipments through the Great Lakes have also been stopped, and ore stockpiles are not being built up at the lower Lake ports as they usually are during the summer months. The longer the flow of ore is stopped the further will steel output be reduced next winter for lack of adequate supplies. Prospects are that the steel situation will remain tight for a year at least.

The March of Events

The most acute phase of the steel shortage unfortunately coincides with the speeding up of military procurement and the recovery of business activity. All sectors of the economy will be moving in unison to intensify the pressure on prices. The readjustment in consumer buying has run its course, and June retail sales made a new high for the month. Retailers have run off inventories to the point where heavier buying is imperative. Revival of the depressed textile industries got underway with a buying surge in mid-June and some producers are reported to be almost fully booked through the end of the year.

Aside from the direct wage loss to the steel workers, the strike has as yet had little effect on consumer incomes.

The layoffs now taking place in the steel-using industries are being compensated in part by designating the shut-down as the period for paid vacations. When work is resumed in steel, it will, of course, be at the higher wage rates now being negotiated; and the breach in the wage line is bound to affect rates in other industries. Thus, rising wages will bolster incomes that had been cut by tax increases and will reaffirm the upward trend in buying power. A sharp rebound from the period of strike losses seems to be assured.

This new upsurge will be sharply reinforced if developments abroad simultaneously induce a new rush of scare buying. Tension on the international front has been mounting. The bombing of the Yalu River power plants indicates a more aggressive approach on the military front. It brought forth protests from the British, who apparently considered it too much of a gamble.

Developments in Europe multiply the possibility of new incidents which could spread the shooting war. The Soviet Union stepped up efforts to keep Western Germany out of the North Atlantic Bloc. It offered a new proposal for unification of all Germany and subsequently closed the border between East and West Germany, illustrating the consequences of a final split. A number of kidnappings and shootings have already occurred at the border and other disturbances are likely. We in turn are planning ways to retaliate, and the situation continues to be dominated by move and countermove designed to gain advantages for either side. War is not intended on either side, but such a situation inevitably involves the danger of a miscalculation or an accident that could spark the holocaust.

About-Face in Congress

As this turn of events had to be faced in the closing days of the fiscal year, Congress abruptly reversed itself and extended controls for another 10 months. In so doing, it gave the Administration a bill far stronger than anything that seemed likely to be approved just a week before.

Earlier, it seemed clear that fears of inflation had passed. Congress had lost all of the determination to fight inflation with which it had originally enacted price and wage controls not included in the Administration's request for emergency powers. The belated recognition that the situation is potentially as dangerous as it was then, that decontrolling might be playing with dynamite in an election year, came as a surprise to most Washington observers.

In the new bill, controls were weakened somewhat, though not seriously. Controls over materials were continued intact. However, new problems and a more urgent need for those controls are emerging from the steel controversy. The agreement by labor and management to turn out military steel during the strike period was apparently too complicated to be put into effect; and in the months ahead, war programs as well as civilian production will be affected, despite any new tightening of controls.

Wage and price controls were also retained to an unexpected degree. Both are made subject to a statement of policy which indicates that control should be "terminated as rapidly as possible," but the application of this policy is discretionary with the control agencies.

On the wage front, the main change is to take away most of the powers of the Wage Stabilization Board. Its functions are made almost purely advisory to the Eco-

(Continued on page 6)

PROTECTIVE PRODUCTS FROM ASBESTOS

Asbestos is a physical paradox—a fibrous rock that can be spun into yarn that will not burn. Either in fiber form or woven into a fabric, it is a protective agent indispensable to industry.

Endowed by nature with unique chemical and physical characteristics, asbestos is noninflammable, waterproof, and resistant to chemical action and decay. Its widest use derives from its properties of insulating effectively, not only against heat but also against electricity, sound, and vibration.

Mixed with fillers such as cement and rubber, asbestos becomes an ideal reinforcement. It is being used in combination with an ever-growing range of other fibers and compounds. The primary manufactures of the asbestos industry are asbestos cement products and friction materials such as brake linings, asbestos textiles, asphalt floor tile, and asbestos insulations, packings, and gaskets.

Illinois a Leading Producer

Although raw asbestos must be obtained from outside the State, Illinois is an outstanding manufacturer of products made of asbestos, a field divided by the 1947 *Census of Manufactures* into two different industries. The asbestos products industry, the larger branch by dollar volume of sales, had 110 establishments making all types of commodities composed of asbestos, with the exception of gaskets and asbestos insulation which were classified in a separate industry.

Leading the nation in the production of gaskets and asbestos insulation in 1947, Illinois accounted for 25 percent of the \$118 million total value of product for this industry. The State had 31 of the 191 firms in the country manufacturing such items as gaskets, insulation material for boilers and pipes, and packings for steam, water, and other pipe joints.

As the second ranking state in the asbestos products industry, Illinois accounted for \$32 million of the total \$205 million value of manufactures although there were only 9 Illinois firms in this field.

Among the largest firms manufacturing asbestos products in Illinois are the Victor Gasket Company in Chicago; the Flintkote Company, with plants at Chicago Heights and Mt. Carmel making asphalt and asbestos roofing; and the Johns-Manville Corporation at Waukegan, whose Illinois plant for the manufacture of building and friction materials employs more than 2,000 workers. Asbestos roofing and insulating materials are made by the Ruberoid Company at Joliet; and the Union Asbestos and Rubber Company has plants at Cicero, Earlville, and Bloomington for the manufacture of packings, gaskets, pipe insulations, and thermal and acoustical insulating blankets.

Mining and Processing

Although the fireproof characteristics of asbestos were recognized by the ancient Greeks and Romans who used it in lamp wicks, it had practically no commercial value

until the development of the steam engine and electrical devices expanded demand for the "indestructible" fiber.

Asbestos fibers are obtained from a group of naturally-occurring minerals found in veins of solid rock. The larger deposits located in Canada, Russia, and South Africa have for many years been mined by open pit methods; however, there has been a recent trend toward underground mining methods with some shafts reaching as much as a thousand feet below the surface of the earth.

Quebec is the source of approximately 90 percent of the asbestos used in the United States. No other extensive asbestos mining region has been found in the Western Hemisphere. Although Arizona produces a very high grade asbestos, the quantity is only a small fraction of the amount consumed by American manufacturers.

The value of asbestos ore depends on the length of the fibers. Crude asbestos is milled, or crushed, by large iron rollers to loosen the bundles of fibers which are then separated, screened, and graded with a minimum amount of fiber length destruction.

High-grade asbestos fibers are white and very flexible, forming a light and fluffy material which resembles raw silk or cotton. The short fibers are sold to paint, paper, and roofing manufacturers or marketed for such uses as chemical filtration, electrical insulation, or packings for machine bearings. The longer and more expensive fibers, commonly called spinning fibers, are made into textiles.

Asbestos Textiles

Textiles represent only a small part of the products of the asbestos industry, but they provide perhaps the most dramatic use of the mineral, repelling heat and flames in such products as lamp and stove wicks and safety garments for firefighters. Asbestos textiles are not restricted to fabrics but are also sold as yarns, twisted and sized threads, cords, ropes, and woven wicks, tapes, and tubing.

The fibers can be spun and woven as pure asbestos material or mixed with a small percentage of organic or synthetic fibers which add desirable spinning qualities and permit the manufacture of smoother, finer yarn without affecting fire-repellency. Asbestos yarn may be strengthened by twisting it with fine metal wires, an advantage where high tensile strength is required or where temperatures are high enough to injure or destroy organic fiber.

The primary use of asbestos textiles is in the production of thermal and electrical insulations. Electrical equipment and conductors of practically every type are protected with asbestos. Resistance to chemicals as well as to heat makes asbestos invaluable to the chemical and petroleum industries also.

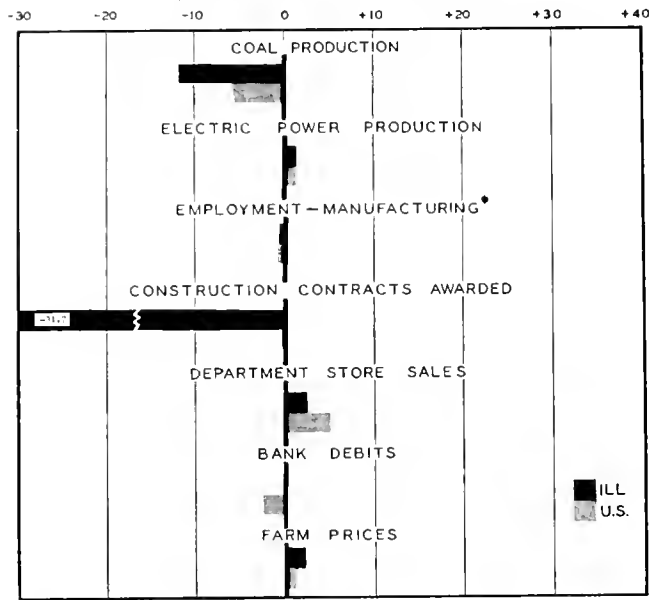
Expansion of production in the nation during World War II contributed to industry's demand for a wider variety of these basic industrial materials. Permeability of asbestos textiles is excellent, and when molded or laminated with plastics they provide great strength and heat resistance, so that the use of asbestos in the plastics field appears particularly promising.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes April, 1952, to May, 1952



*March, 1952, to April, 1952

ILLINOIS BUSINESS INDEXES

Item	May 1952 (1947-49 = 100)	Percentage Change from	
		April 1952	May 1951
Electric power ¹	131.0	+ 1.1	+ 5.5
Coal production ²	62.2	-11.9	-15.3
Employment—manufacturing ³	104.6	- 0.4 ^a	- 1.1 ^b
Payrolls—manufacturing	n.a.		
Dept. store sales in Chicago ⁴	98.9 ^c	+ 3.2	- 3.1
Consumer prices in Chicago ⁵	114.5 ^d	+ 0.8	+ 2.6
Construction contracts awarded ⁶	190.6	-31.7	- 2.4
Bank debits ⁷	125.3	+ 0.0	- 0.9
Farm prices ⁸	115.7	+ 3.1	- 4.8
Life insurance sales (ordinary) ⁹	127.7	- 7.0	+ 2.3
Petroleum production ¹⁰	n.a.		

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

* March, 1952 to April, 1952. ^b April, 1951, to April, 1952. ^c Seasonally adjusted. ^d On 1935-39 base, the index was 194.7. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	May 1952	Percentage Change from	
		April 1952	May 1951
Annual rate in billion \$			
Personal income ¹	263.5	+ 0.4	+ 5.5
Manufacturing ¹			
Sales	278.4 ^a	- 0.4	- 0.9
Inventories	42.3 ^{a, b}	- 0.5	+11.0
New construction activity ¹			
Private residential	11.0	+ 7.9	- 0.5
Private nonresidential	10.7	+ 5.7	- 3.3
Total public	11.4	+12.5	+16.9
Foreign trade ¹			
Merchandise exports	17.5	+ 9.5	+ 7.9
Merchandise imports	10.0	-10.5	-18.0
Excess of exports	7.5	+55.9	+86.4
Consumer credit outstanding ²			
Total credit	20.3 ^b	+ 2.4	+ 5.5
Installment credit	13.8 ^b	+ 3.4	+ 6.6
Business loans ²	20.5 ^b	- 1.3	+ 7.8
Cash farm income ³	n.a.		
Indexes (1947-49 = 100)			
Industrial production ²			
Combined index	116 ^a	- 0.9	- 3.6
Durable manufactures	128 ^a	- 0.4	0.0
Nondurable manufactures	105 ^a	- 1.6	- 9.1
Minerals	110 ^a	- 3.0	- 2.4
Manufacturing employment ¹	103 ^a	- 0.6	- 3.4
Production workers			
Factory worker earnings ¹			
Average hours worked	100	+ 0.5	- 1.7
Average hourly earnings	125	+ 0.2	+ 4.5
Average weekly earnings	125	+ 0.7	+ 2.7
Construction contracts awarded ⁵	208	- 0.2	-38.1
Department store sales ²	108 ^a	+ 4.9	+ 3.8
Consumers' price index ¹	113 ^c	+ 0.2	+ 1.9
Wholesale prices ⁴			
All commodities	112	- 0.2	- 3.7
Farm products	108	- 0.6	- 6.6
Foods	109	+ 0.6	- 3.3
Other	113	- 0.3	- 3.3
Farm prices ³			
Received by farmers	109	+ 1.0	- 3.9
Paid by farmers	116	0.0	+ 2.5
Parity ratio	101 ^d	+ 1.0	- 6.5

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ^a Seasonally adjusted. ^b As of end of month. ^c On 1935-39 base, 189.0. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1952					1951
	June 28	June 21	June 14	June 7	May 31	June 30
Production:						
Bituminous coal (daily avg.)	1,576	1,313	1,208	1,264	1,555	1,906
Electric power by utilities	7,318	7,254	7,126	7,005	6,811	6,835
Motor vehicles (Wards)	117.7	119.2	120.1	117.8	98.1	149.9
Petroleum (daily avg.)	6,062	6,063	6,058	5,989	n.a.	6,099
Steel	27.5	28.2	28.4	90.0	234.3	230.2
Freight carloadings	649	644	631	684	697	822
Department store sales	91	98	116	111	97	89
Commodity prices, wholesale:						
All commodities	110.7	111.2	111.7	111.5	111.6	115.1
Other than farm products and foods	112.3	112.5	112.4	112.4	113.0	116.2
28 commodities	293.5	293.3	293.5	293.3	297.2	343.1
Finance:						
Business loans	20,784	20,776	20,518	20,424	20,530	19,220
Failures, industrial and commercial	163	151	175	120	136	188

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Production Off

Industrial activity dropped sharply during June, mainly as a result of the steel strike. Preliminary Federal Reserve Board data indicate that production may have dropped 12 index points to 202 (1935-39 = 100), as shown in the accompanying chart. At that level, output would be the lowest since July, 1950, just after the outbreak of war in Korea. Steel production during the month averaged less than 20 percent of capacity, or 389,000 net tons of ingots and castings per week. During the last three weeks of June, the industry operated at 12 percent of capacity.

Automotive production was maintained during June, with output averaging about 95,000 cars and 25,000 trucks weekly. A virtual halt in production was expected in July by some producers as supplies began to run out. Ford had already put its operations on a four-day week by the latter part of June.

Steel Strike Effects

Effects of the continued strike of steel workers began to be felt early in June and increased throughout the month. Several of the larger railroads east of the Mississippi, especially those operating in steel-producing areas, announced layoffs of both operating and nonoperating workers. Three automobile companies—General Motors, Ford, and Nash—had announced plans for output curtailments by the end of the month, and at least two appliance makers had stopped the manufacture of some consumer goods. International Harvester planned cutbacks of truck and farm implement production beginning June 27; and the Caterpillar Company at Peoria made plans to go on a three-day week late in July because of shortages. The relaxation of construction controls scheduled by the National Production Authority for July 1 was postponed until after the strike's end.

The major concern during the strike has been for defense production. The output of military trucks, tanks, rockets, and shells has been affected so far, with other

items dependent on short supplies. Attempts have been made to arrange for the output of steel forms required for defense items, but there has been little, if any, success.

By the end of the month, agreements had been reached between the steel workers and various small companies and one larger company, Pittsburgh Steel. No settlements had been made between the workers and any of the "big six."

Retail Sales at 1952 High

Sales by retailers during May reached a high for this year. A 2.4 percent increase over April raised total sales to \$13.0 billion after allowance was made for seasonal factors. Most of the increase was accounted for by gains in durable goods lines; sales of hard goods were up 5.3 percent to a total of \$4.5 billion. Nondurable goods, on the other hand, advanced 1.0 percent to \$8.5 billion. Among durable goods, the automotive, housefurnishings, and jewelry groups showed the largest gains, 5 percent to 9 percent. Part of the rise was accounted for by the easing of credit terms after the dropping of credit controls, which had more effect on durables. In soft goods, food and general merchandise sales were up most, 1.6 percent and 2.0 percent, respectively.

Manufacturers' sales dropped slightly, from \$23.3 billion to \$23.2 billion, as nondurable goods trade weakened. Lower sales for such durables as primary metals, nonelectrical machinery, and lumber were offset by increases in electrical machinery and transportation equipment, so that total sales of hard goods remained unchanged.

Inventories were somewhat lower. In this case, too, the change occurred in nondurables lines, with stocks of durables unchanged from the previous month. New orders dropped substantially; a decrease of \$1.3 billion in orders for durables outweighed a small increase in orders for nondurables, so that the total dropped \$1.2 billion to \$21.9 billion. Unfilled orders for durable goods at the end of May were more than five times May sales, whereas those for soft goods were less than one-third of May sales of such items.

Credit Increases

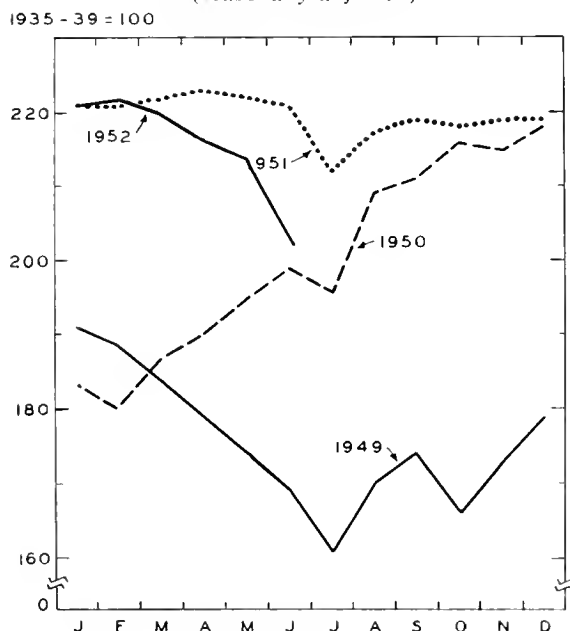
Loans to business firms rose during the four-week period ended June 25 to \$20.8 billion. The 1.3 percent increase reflected in large part an advance in loans made by banks of the New York Federal Reserve District.

Credit to consumers was expanded by nearly \$500 million during May; an increase in installment credit accounted for all but a small portion of the total addition. At \$20.3 billion, total consumer credit outstanding was more than \$1 billion higher than at the end of May, 1951; installment credit had increased by \$850 million. At least two factors entered into the picture: Federal Reserve controls over credit were dropped early in May, and seasonal factors ordinarily lead to an increase in consumer credit and in business loans from May or June until the end of the year.

Business Population Stable

A study by the Department of Commerce shows that the business population increased by only 0.3 percent from March 31, 1951, to March 31, 1952. The number of firms in business at the end of the first quarter was slightly above 4 million, close to the postwar peak. At that level,

INDUSTRIAL PRODUCTION
(seasonally adjusted)



Source: Federal Reserve Board.

the business population was one-fifth greater than in pre-war June, 1940, and was more than one-third larger than the number of firms in operation at the World War II low of December, 1943.

Contract construction firms (up 3.2 percent) and transportation, communications, and other public utilities (4.8 percent higher) were the only two major industrial groups to show significant increases during the most recent year reported.

The increased number of construction firms largely reflected the continued strength of demand for new construction; the chief factor in the increase in the transportation, communications, and other public utilities group was the expansion in the number of small trucking and warehousing companies.

Aside from these two groups, only the number of retail trade firms changed appreciably, declining 0.9 percent. A continuing downward trend in the number of food stores has been the main element in this decrease. The manufacturing population was unchanged on March 31 from a year earlier, with a drop among nondurables producers offsetting a continuing increase in durables manufacturing firms caused by the defense program.

Capital Expenditures Remain High

Business expenditures for capital goods have continued at a record rate, according to a joint report by the Department of Commerce and the Securities and Exchange Commission. Preliminary estimates for the second quarter indicate that businesses spent \$6.4 billion on plant and equipment, \$800 million more than in the first quarter.

This substantial increase is attributed chiefly to the expansion programs of the electric power, petroleum, chemicals, and rubber industries; other major groups have shown considerable stability in their capital spending. In contrast, earlier large increases reflected a general

industrial expansion. Metals manufacturing firms especially have slowed the rate of expenditures, and nondefense manufacturing industries have made sizable cutbacks in expansion programs.

On a dollar basis, planned expenditures for the third quarter will reach \$6.2 billion, about \$500 million less than the peak rate of the fourth quarter of 1951 (see accompanying chart).

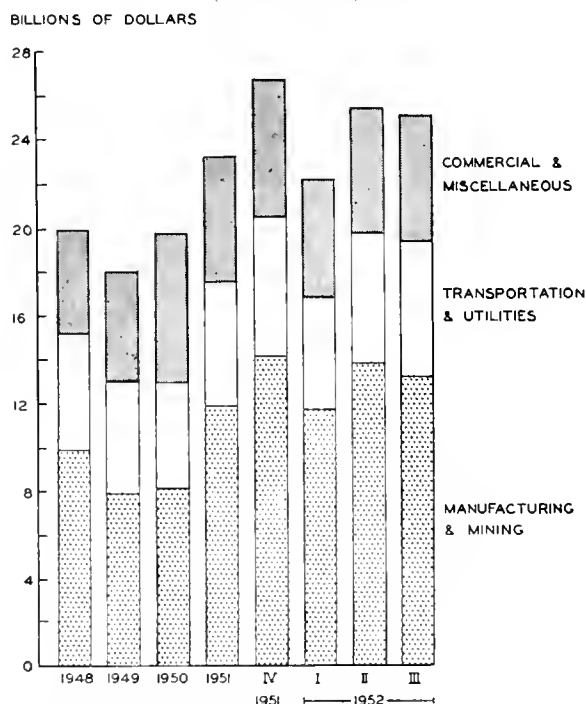
Estimates for the third quarter show a further increase for nondurable goods manufacturing, but a reduction for makers of hard goods. Among durables manufacturers, only the nonferrous metals and automotive groups expect increases. Previously, makers of durable goods have shown larger additions to plant and equipment than have producers of soft goods.

Resources Report

A five-man Materials Policy Commission appointed by the President 18 months ago made its report in June. In a five-volume report, the Commission has reviewed this nation's needs during the next 23 years (until 1975) and made recommendations for meeting those needs. The Commission anticipates a doubling of gross national product by 1975, with an increase of 50 to 60 percent in supplies of industrial raw materials required to support that level. It pointed out that in 1950 the United States used more than half the world production of such materials as rubber, petroleum, and iron ore. Moreover, we import all our supplies in more than half of the 74 categories of materials classified as strategic or critical by the Munitions Board and parts of our needs in nearly all of the others. The Commission foresees a doubling in the demand for minerals as a whole, with very large increases required in the supply of some minerals — bauxite, fluor-spar, and magnesium, for example. Demand for fuel and energy is expected to double.

Among other things, the Commission recommends that our foreign trade laws be made less restrictive and that domestic fuel and power programs be encouraged by the Federal government.

BUSINESS CAPITAL EXPENDITURES
(annual rates)



Source: U. S. Department of Commerce; Securities and Exchange Commission.

Why Controls Were Extended

(Continued from page 2)

conomic Stabilizer, and it is excluded from any jurisdiction with respect to labor disputes.

With reference to prices, the most important changes make further concessions to agriculture and to the processors of farm products. Specifically, fruits and vegetables in either fresh or processed form are exempted from price control. Other minor concessions are also provided.

As a means of control in a serious emergency, the law is still inadequate, as it has been from the beginning. Lack of control over food prices and rents makes impossible effective control over wages and other prices. Nevertheless, it may have some stabilizing effect during the months ahead. Some prices are currently at or near their ceilings, and these will meet definite restraint. Also, if inflation gains momentum, the braking action will spread continuously to other products and industries.

Beyond that, the new authorization accomplishes two things: It maintains something of an operating organization, however inadequate, through the disturbed period that lies ahead; and it leaves the final determination of policy on prices and wages to the new Administration and the new Congress, who can act free of political considerations in the light of conditions then existing.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Powdered Metal

A fast-spreading trend in manufacturing is the method of shaping metal in powdered form into parts for everything from toy trains to jet engines. The powdering process does away with much of the costly machine-cutting often needed to shape metals. It is said to make possible the production of intricate parts that could not be made in any other way. In shaping, the powder goes into a die under a big press. Some parts require pressures as high as 50 tons per square inch. Once pressed, the metal is baked at a temperature just below its melting point until the grains are fused together in one piece. The process, known since early Egyptian times, can be used with almost any metal. Leading in extent of use now is iron, followed by copper, lead, zinc, and aluminum. The plastic metals division of National Radiator Corp., Johnstown, Pa., is the nation's largest producer of iron powder; large quantities of copper and lead powder are made by the Glidden Company's metals division at Hammond, Ind.

Portable Home Demonstrated

The Pressed Steel Car Company at Hegewisch, Illinois, has developed a five-room portable dwelling unit that can be loaded onto a flat-bed trailer or a railway flatcar and placed on a new foundation in less than two hours after transportation to another site. The new "Unishelter," which can be built for less than \$8,000, is constructed entirely of laminated stressed-skin plywood laid grain against grain and fused to form three insulated, weatherproof, one-piece structural units, plastic faced inside and out. Roof, walls, and floor are molded together with plastics under pressure. The entire floor area is covered with asphalt tile; and complete plumbing, water, gas, and electric equipment is in the house ready to be attached to connections at the site. A gas oven, electric refrigerator, water heater, and washing machine would be part of the standard equipment. The Unishelter is one of eight types of permanent mobile-dismountable housing selected by the Federal Housing and Home Finance Agency for testing.

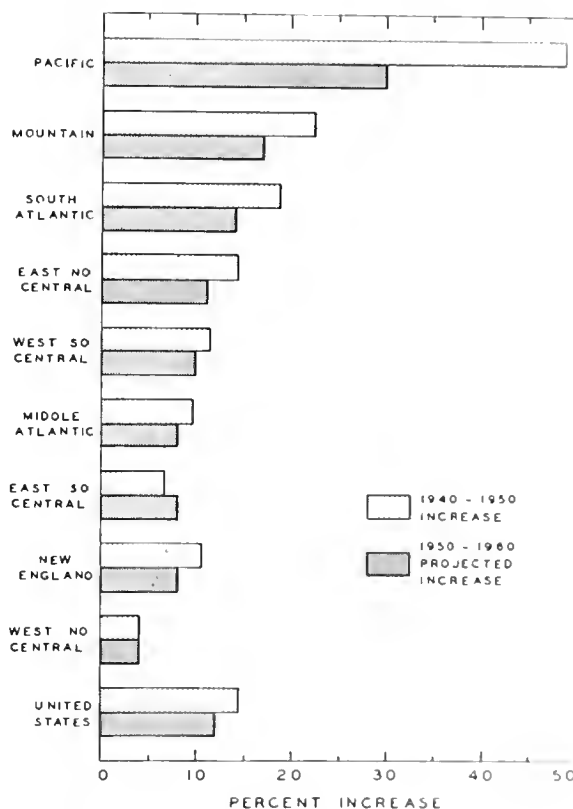
Utilizing Iron Shavings

Tiny iron shavings that pile up on machine shop floors may soon supply more much-needed scrap for the steel industry. Crofts, Ltd., of Bradford, England, has announced the invention of a device that allows re-use of much of this scrap metal for remelting into new iron castings. According to the British firm, as much as 15 percent of a new iron casting's original weight is ground into small particles during machine shop production of such things as gears and wheels. Remelting the particles in conventional cupola furnaces has not been possible because when the shavings are dumped into the top they are blown out again, unmelted. Some companies press them into briquettes for remelting, but that adds extra costs as do separate electric furnaces sometimes used for melting shavings. The Crofts machine is a compressed air-powered ram installed in the wall of the furnace which forces the metal into the cupola at a point below normal loading level. A considerable amount of unmelted scrap, pig iron, and coke is always on top to keep the tiny particles from being blown out.

Population Growth

The Business Information Service report for March, 1952, published by the U. S. Department of Commerce, contains an article on "State and Regional Population in 1960." As shown by the chart, a comparison of 1950 populations with the Census Bureau's medium series of population projections for 1960 indicates that the Pacific states are far in the lead in rate of increase. A downward trend in birth rates is stated to have been underway for 100 years before it struck bottom during the economic depression of the 1930's. The return of prosperity brought a marked pickup in population growth which is expected to be more rapid during the 1950's than it was during the 1930's but slower than in the wartime and postwar years of the 1940's.

REGIONAL POPULATION INCREASES



Source: Bureau of the Census.

Reducing Manufacturing Distribution Costs

A Department of Commerce booklet designed to help business firms analyze and improve their marketing operations is titled "How Manufacturers Reduce Their Distribution Costs." It describes the results of a survey of 45 selected manufacturers who succeeded in cutting their marketing expenses and substantially increasing their profits. The booklet is said to give any manufacturer helpful suggestions on cost-cutting procedures. Copies are available from the Chicago and Milwaukee offices of the Department of Commerce at 35c each.

FOREIGN TRADE AND FOREIGN TRADE BARRIERS

GRACE BECKETT, Associate Professor of Economics

The general speed-up in production of both military and civilian goods following the Korean incident significantly modified the course of international trade. Rearmament programs in the United States and the industrial countries of Western Europe necessitated increased imports of raw materials. At first the world-wide increase in demand for imports of raw materials was stronger than that for manufactured goods, and from mid-1950 to the spring of 1951 prices of primary goods rose more rapidly than those of finished goods. After the spring of 1951 world raw material demand declined somewhat, and raw material prices dropped from the previous peaks.

When the primary producing countries improved their trading and financial position in the boom months, they relaxed import restrictions, increased imports of finished manufactures, both consumer goods and machinery, and used this opportunity to buy capital goods to advance their production status. The extended purchasing, in some cases beyond current earnings as prices of their products fell back, led to the imposition of import controls by several of these countries near the end of 1951.

When prices of finished goods exports did not rise as rapidly nor to the same extent as prices of raw material imports, the terms of trade frequently turned against the manufacturing countries of Western Europe. By the fall of 1951 the over-all trade position of many of these countries had adjusted to the changed conditions, although there was still imbalance in intra-European trade. But domestic inflation and balance of payments difficulties in at least two major European countries posed serious problems, and regulations on foreign trade were strengthened.

In addition, rearmament itself led to further trade restrictions. The pressure on the supply of industrial products in advanced manufacturing countries, particularly the United States, together with the enhanced demand for exports of defense materials and capital equipment induced tightening of export controls, selective as to product and destination. Thus, there has been a rather general movement away from free trade toward greater control and restrictions.

United States Export and Import Trade

United States total trade in 1951, with exports of \$15 billion and imports of \$11 billion, was significantly higher in value than in 1950. The trade gap widened to \$4 billion; it had dropped to \$1.4 billion the previous year, the nearest to a balanced trade account since 1940. The value of our trade remained high in the early part of 1952, with the balance not much changed from the last three quarters of 1951. The accompanying chart shows recent changes in comparison with averages for selected past periods.

The quantity index increased from 193 in 1950 to 247 in 1951 for exports (1936-38 = 100), but decreased from 146 to 144 for imports. In both cases the 1951 indexes had been exceeded only once, as the following table shows:

Year	Exports (1936-38 = 100)	Imports
1939.....	113	94
1945.....	197	107
1947.....	275	108
1948.....	214	123
1949.....	219	120
1950.....	193	146
1951.....	247	144

Our five leading exports in 1951, as in 1950, were machinery, grains and preparations, automobiles, including parts and accessories, unmanufactured cotton, and chemicals and related products. Coffee, crude rubber, unmanufactured wool, nonferrous metals, and paper and paper materials were our five leading imports in 1951; petroleum and products had placed among the first five in 1950 instead of unmanufactured wool.

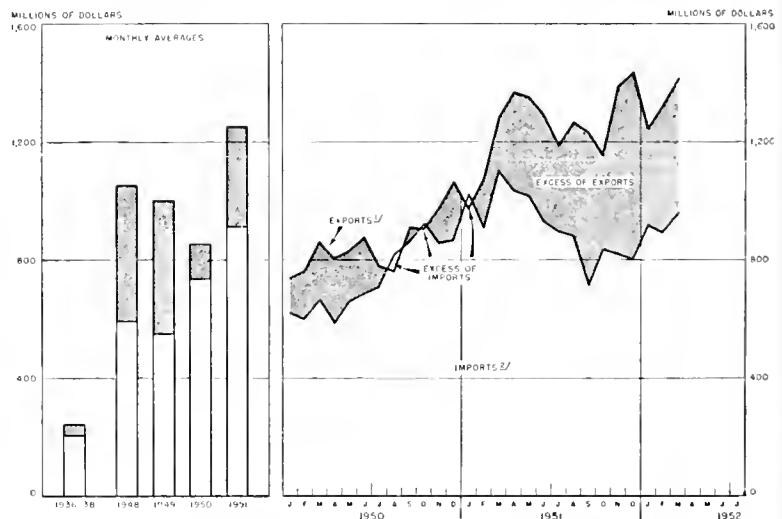
Canada, the United Kingdom, Mexico, Brazil, and Japan were our main markets in 1951. Canada, Brazil, the United Kingdom, British Malaya, and Cuba were our major sources of supply. Although the countries of Western Europe have increased their exports to us substantially in the postwar period, they were not, with the exception of the United Kingdom, major factors in our import trade. However, a volume that is minor in terms of our total trade may well be very important in terms of theirs.

Increased Import Restrictions

In recent months an increased number of restrictions imposed under authority of such diverse measures as the Reciprocal Trade Agreements Extension Act, the General Agreement on Tariffs and Trade, the Defense Production Act, and the Agricultural Adjustment Act have affected some United States imports.

Section 6 of the Trade Agreements Extension Act of 1951 stipulates that no trade agreement concession, such as a duty reduction, is to continue in force if, as a result, the concession product is imported in such increased quantities as to cause serious injury to the

MERCHANDISE EXPORTS AND IMPORTS



Source: *Economic Indicators*, Council of Economic Advisers.

domestic industry producing competitive products. This escape clause provision was not a part of the original 1934 Reciprocal Trade Agreements Act.

Before making a report and recommendation for or against modification of a concession, the United States Tariff Commission must consider any downward trend in production, employment, prices, profits, or wages in the specified domestic industry, any decline in sales, an absolute or relative increase in imports, a higher inventory, or a decline in the share of the domestic market furnished by domestic producers. If the Commission recommends a change, the President either makes such modifications as the Commission finds necessary to remedy serious injury to the domestic industry, or submits a report to designated Congressional committees indicating why he has not made the adjustments.

An escape clause is also contained in Article XIX of the General Agreement on Tariffs and Trade (GATT) concluded at Geneva, Switzerland, in 1947. Except in critical circumstances, a contracting party desirous of withdrawing a concession under this article must give prior notice of its proposed action. This provides an opportunity for consultation. If agreement with respect to withdrawal of the concession is not reached, the contracting party is free to proceed, but the affected parties are also free to suspend substantially equivalent concessions.

On December 1, 1950, certain tariff concessions on women's fur felt hats and hat bodies, which had been included in the General Agreement, were modified by the United States following a United States Tariff Commission investigation. A GATT Working Party, set up to study United States action with respect to women's fur felt hats and hat bodies, reported that there was no conclusive evidence that the withdrawal of concession treatment was a breach of obligations under the General Agreement, but suggested that the United States keep the matter under review and consider restoring the concessions if withholding them should no longer be necessary.

Foreign Reaction to Restrictions

The United States withdrew its GATT tariff concessions on certain grades of hatter's fur on February 8, 1952. Belgium, usually the chief source of our imports of hatter's fur, subsequently rescinded a tariff concession on the import of industrial wax from the United States; this concession had also been negotiated under the General Agreement in 1947. Belgium's action extended to wax imports into the Netherlands and Luxembourg, in accord with the Benelux customs union arrangement.

Several applications for invocation of the escape clause were before the United States Tariff Commission in 1952. Investigations were requested concerning the effect of tariff concessions upon a list of products including bicycles and parts, blue mold cheese, chinaware, dried figs, estrogenic compound, garlic, glacé cherries, ground fish fillets, jeweled watches, motorcycles and parts, spring clothespins, tobacco pipes, tuna fish, whiting, and wood screws, with a variety of circumstances determining to what extent the list might be expanded. Decisions on these cases have been awaited with interest.

A British note of April, 1952, emphasized the increased number of applications for use of the escape clause by American producers, and expressed concern that if the clause were applied loosely whenever material increase in competition with imports appeared, the effect on the ability of other countries to earn dollars would be serious.

Section 104 of the 1951 Defense Production Act permitted the imposition of quota restrictions if the importation of various products, such as fats, oils, and dairy products, were a threat to American security and economic interests. Under authority of this section, the importation of cheese was restricted. Nine governments (Australia, Canada, Denmark, Finland, France, Italy, the Netherlands, New Zealand, and Norway) formally protested against these restrictions at a meeting of the contracting parties of the General Agreement, charging that the United States action was inconsistent with its trade agreement obligations. The Italian government, in a memorandum to the American State Department, commented upon the general effect on the Italian economy of recent United States import restrictions.

By Section 22 of the Agricultural Adjustment Act the President was empowered to restrict imports of any agricultural commodities which interfered with Department of Agriculture support programs; import fees could be imposed up to fifty percent of the value of such commodities. A few months ago a fee was placed on the importation of certain almonds. Section 8 of the Trade Agreements Extension Act provides for immediate investigation by the United States Tariff Commission under Section 22 of the Agricultural Adjustment Act and for emergency action in the case of a perishable agricultural commodity.

American Foreign Trade Policy

Individually these measures may have a relatively insignificant effect upon the volume of our trade, but the total impact and the psychological effect upon our suppliers and customers in other countries may be more important. Should withdrawal of concessions and increase of restrictions become frequent, uncertainty might pervade trading relationships. Marked instability of demand in the American market could discourage many foreign salesmen from attempting to develop channels of trade here.

Other nations pay us for our exports of goods, services, and bullion by the goods, services, and bullion they send us. If our purchases from them do not rise as rapidly as our sales to them, then, in order to forestall or minimize increases in their foreign indebtedness, they cut their purchases from us and turn to other markets where sales and purchases will approximately balance. In some cases, bilateral agreements are made providing for exactly offsetting sales and purchases. If we are to receive payment as a creditor nation, it must eventually be in the form of goods and services from our debtors, or the loans will go into default.

Our trade policy is still nominally one of expanded world trade and reduced barriers to trade, and we have been placing great emphasis on it in the postwar period. Only the future will show to what extent this policy is to be modified. During such uncertain times as these it may be practicable to have provisions in our tariff and commercial agreements conducive to elasticity and facility of adjustment in case of grave and unpredictable emergencies affecting major segments of our economy; but great care should be taken to assure that alterations are not made unless absolutely necessary, and that the prior arrangement is restored as soon as feasible. Our short-run action must be taken with full cognizance of our long-run objectives concerning the relationship of our foreign trade to our domestic production and our position in the international economy.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business indexes in May showed mixed trends. Electric power production was up somewhat and department store sales rose substantially; but in such industries as coal mining and construction, sizable declines occurred. Petroleum production was drastically cut by the oil workers' strike. Diverse movements also appeared in the year-to-year comparisons. Electric power consumption was 5.5 percent higher than in May, 1951; but coal production was off by 15.3 percent, and construction contracts awarded were down 2.4 percent.

Power Consumption Increase

The use of electric power in the larger Illinois cities was substantially higher for the first five months of 1952 than for the corresponding period of 1951. As shown in the accompanying chart, all but one of the 14 major urban areas of the State for which data are available increased consumption over the early months of last year. Only in Alton was there a decrease, 1.1 percent. In eight of the cities, advances in electric power use were greater than the average. The largest gain, nearly 20 percent, occurred in Bloomington; Springfield and Decatur also showed sizable increases, 12.0 percent and 10.8 percent, respectively. Among the highly industrialized centers, only Rockford was able to show an above-average rise; in Chicago, Rock Island-Moline, Danville, and Peoria, gains over last year were lower than the 16-city average.

Some of the advance in the consumption of electric power is attributable to a long-term upward trend, as

new factories are built and as more electric power using machines and appliances come into use; but the rate of addition of such equipment has been raised by the requirements of the defense program.

Construction Contracts Down Sharply

The value of construction contracts awarded fell sharply from April to May. Part of the drop of 31.7 percent reflected the sharp bulge in awards made in April. Nonresidential building was off by 63.7 percent, mainly because of a 91.3 percent decline in contracts awarded for manufacturing building. Awards for public works and utilities were off by a fifth. Only residential construction rose from the April level, showing a gain of 18.9 percent.

At slightly more than \$101 million, the May value of contract awards was 2.4 percent below the May, 1951, value. In this case, also, sizable declines in nonresidential building and public works and utilities construction (19.5 percent and 5.6 percent, respectively) were only partially offset by a rise in residential awards (12.6 percent).

A comparison of the first five months of 1952 with the corresponding period of 1951 indicates that total contracts let were 7.5 percent higher this year, with increases in the residential and public works and utilities groups the main factors. Nonresidential awards were virtually the same.

Hotpoint Company, a General Electric affiliate, plans to spend about \$2.5 million during the next year retooling a Chicago plant for the production of refrigerators. The new plant will make possible the annual output of 350,000 refrigerators. Zenith Radio has recently opened a \$5 million parts-manufacturing unit in Chicago to produce radio and television parts, hearing aids, and defense materials.

Farm Prices Rise

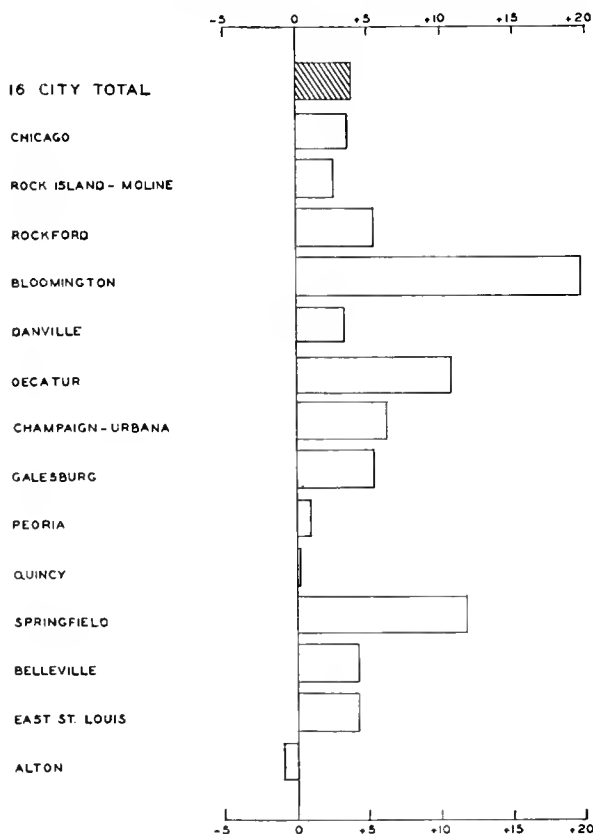
Prices received by Illinois farmers rose considerably during the month ended May 15. A 3.1 percent increase from 288 percent to 297 percent of the 1910-14 average was caused mainly by a 4.7 percent increase in prices of livestock and livestock products. Crop prices rose only fractionally. Since prices paid were unchanged, the parity ratio advanced three points to 103.

The consumers' price index for Chicago rose 0.8 percent during the month ended May 15 to 194.7 (1935-39 = 100). Although increases were common among the major classifications, a 1.9 percent advance in food prices was the chief factor in the over-all increase. The latest index indicated that prices had risen 2.6 percent since May, 1951, and were 11.2 percent higher than the June, 1950, level.

Road Program Progress

The record highway program of the State is going forward with contracts let totaling \$5 million to \$7 million weekly. By early June, contracts valued at \$50 million had been awarded for projects throughout the State. At that rate, the 1952 midyear total was expected to be about \$2 million ahead of expenditures in 1951, the previous record year. Total spending for the year is now estimated at \$100 million, instead of the \$90 million announced earlier. Much of the work this year seems to be in blacktop resurfacing and maintenance rather than in new construction of concrete highways.

ELECTRIC POWER CONSUMPTION
Percent Change, Jan.-May, 1951, to Jan.-May, 1952



Source: Local power companies.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

May, 1952

	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁴ (000)
ILLINOIS	\$31,912 ^a	842,907 ^a	\$513,882 ^a		\$10,951 ^a	\$12,079 ^a
Percentage Change from.... {Apr., 1952.....	+20.9	-5.5	+4.0	+7.3	+0.0	-1.3
{May, 1951.....	+5.7	+1.9	+0.1	-1.4	-0.9	+7.2
NORTHERN ILLINOIS						
Chicago	\$25,049	654,346	\$380,056		\$9,950	\$10,606
Percentage Change from.... {Apr., 1952.....	+33.4	5.6	+4.2	+8.3	0.2	+0.2
{May, 1951.....	+12.4	+1.7	+0.7	-2.2	-1.5	+7.7
Aurora	\$411	n.a.	\$7,225		\$ 44	\$ 79
Percentage Change from.... {Apr., 1952.....	+50.3		+7.1	+20.0	+6.9	-7.8
{May, 1951.....	-6.8		+5.4	+22.0	+6.7	+5.2
Elgin	\$ 293	n.a.	\$5,191		\$ 28	\$ 72
Percentage Change from.... {Apr., 1952.....	-8.2		+11.1	-5.1	+11.9	-19.0
{May, 1951.....	-29.0		+3.3	-4.1	+4.2	-4.9
Joliet	\$ 325	n.a.	\$9,798		\$ 54	\$ 60
Percentage Change from.... {Apr., 1952.....	-07.6		+0.3	+14.7	+6.8	-20.8
{May, 1951.....	-1.2		+10.0	+2.3	+15.8	+13.0
Kankakee	\$ 181	n.a.	\$4,841		n.a.	\$ 31
Percentage Change from.... {Apr., 1952.....	-30.4		+6.6	-6.7		+5.7
{May, 1951.....	+00.2		+17.3	-9.1		+4.2
Rock Island-Moline	\$1,882	17,828	\$9,666		\$ 38 ^b	\$ 138
Percentage Change from.... {Apr., 1952.....	+84.0	+0.4	+8.0	n.a.	+12.4	+1.9
{May, 1951.....	+2.4	+2.1	+3.4		+6.8	+9.8
Rockford	\$ 966	26,397	\$15,751		\$ 131	\$ 170
Percentage Change from.... {Apr., 1952.....	+24.6	-3.4	+5.3	+4.8	+3.4	-17.5
{May, 1951.....	+24.6	+3.6	+3.6	-2.2	+3.8	+9.3
CENTRAL ILLINOIS						
Bloomington	\$ 245	5,686	\$5,152		\$ 51	\$ 118
Percentage Change from.... {Apr., 1952.....	-41.9	-6.3	+4.9	n.a.	+9.1	-23.0
{May, 1951.....	-23.0	+17.7	+11.2		+13.9	+19.5
Champaign-Urbana	\$ 96	7,526	\$6,885		\$ 52	\$ 88
Percentage Change from.... {Apr., 1952.....	-35.1	-6.8	+3.4	n.a.	+2.4	+9.2
{May, 1951.....	-51.3	-0.9	+3.2		+7.5	-1.1
Danville	\$ 248	7,337	\$5,620		\$ 40	\$ 40
Percentage Change from.... {Apr., 1952.....	+82.4	-3.0	-0.3	+2.9	+1.3	-1.7
{May, 1951.....	+3.3	+0.2	+3.3	+4.9	+2.9	+7.5
Decatur	\$ 279	17,981	\$8,752		\$ 83	\$ 98
Percentage Change from.... {Apr., 1952.....	-2.8	-14.9	+1.4	-2.1	+5.3	-7.0
{May, 1951.....	-59.1	-2.7	+0.3	+1.4	+9.2	+0.0
Galesburg	\$ 162	5,557	\$3,860		n.a.	\$ 29
Percentage Change from.... {Apr., 1952.....	+47.3	-3.8	+3.2	n.a.		-6.2
{May, 1951.....	+17.4	-0.5	+3.8			+11.1
Peoria	\$ 343	45,130 ^c	\$16,629		\$ 203	\$ 180
Percentage Change from.... {Apr., 1952.....	-39.0	-3.9	-1.2	+6.3	+4.2	-12.0
{May, 1951.....	-47.6	-2.5	+1.4	+3.5	+6.5	+2.7
Quincy	\$ 235	6,017	\$4,613		\$ 36	\$ 67
Percentage Change from.... {Apr., 1952.....	+1.7	-10.0	+4.9	+1.0	+9.0	-7.6
{May, 1951.....	+23.0	+24.6	+1.5	0.0	+3.2	+3.5
Springfield	\$ 476	22,631 ^c	\$12,674		\$ 87	\$ 176
Percentage Change from.... {Apr., 1952.....	+53.5	-5.6	+6.3	-19.3	+1.0	-11.5
{May, 1951.....	-15.8	+8.8	+11.2	+5.5	+5.7	-11.1
SOUTHERN ILLINOIS						
East St. Louis	\$ 228	11,717	\$8,864		\$ 122	\$ 57
Percentage Change from.... {Apr., 1952.....	+0.9	-4.7	+3.5	n.a.	3.1	+3.8
{May, 1951.....	-53.9	+6.4	+4.6		7.1	+11.1
Alton	\$ 384	10,376	\$4,370		\$ 31	\$ 26
Percentage Change from.... {Apr., 1952.....	+61.3	+0.6	+2.5	n.a.	+8.3	+1.6
{May, 1951.....	+54.2	-1.3	+4.5		+9.6	+12.4
Belleville	\$ 109	4,381	\$3,936		n.a.	\$ 33
Percentage Change from.... {Apr., 1952.....	+75.8	-11.4	+1.2	n.a.		27.5
{May, 1951.....	-58.6	+8.0	+4.6			8.8

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for April, 1952, the most recent available. Comparisons relate to March, 1952. ⁴ Research Department of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

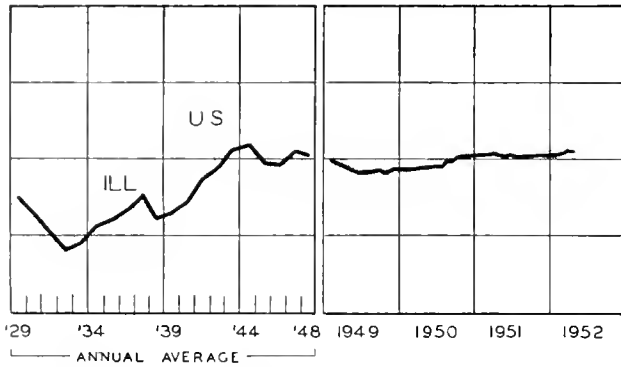
^c Includes immediately surrounding territory.

n.a. Not available.

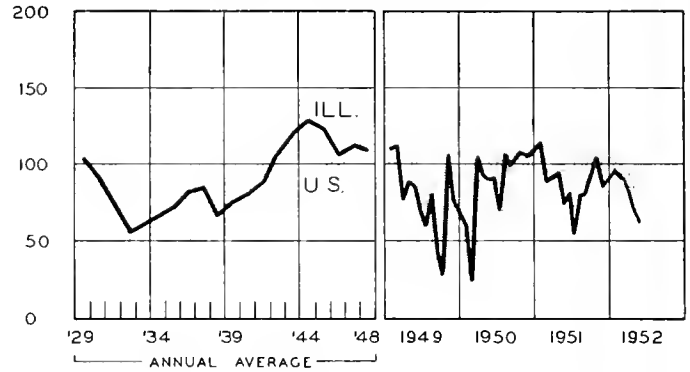
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

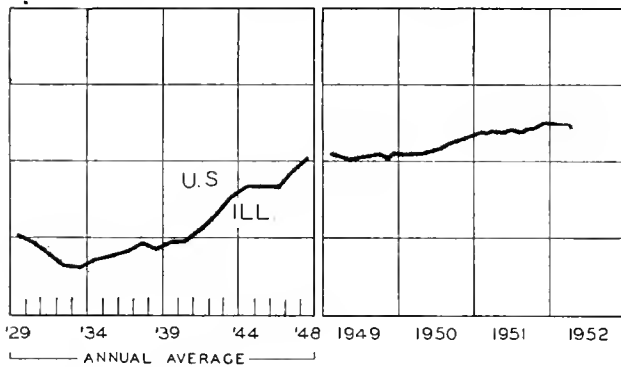
EMPLOYMENT - MANUFACTURING



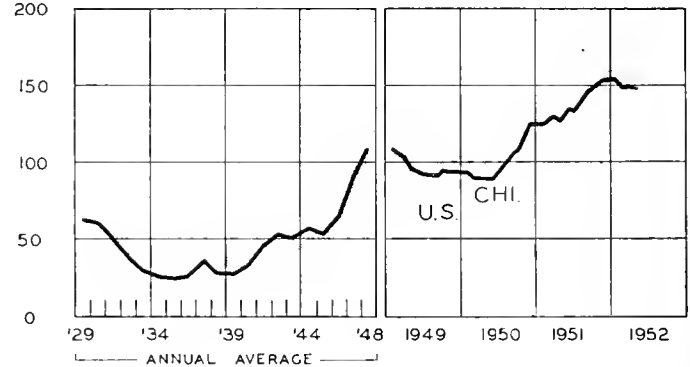
COAL PRODUCTION



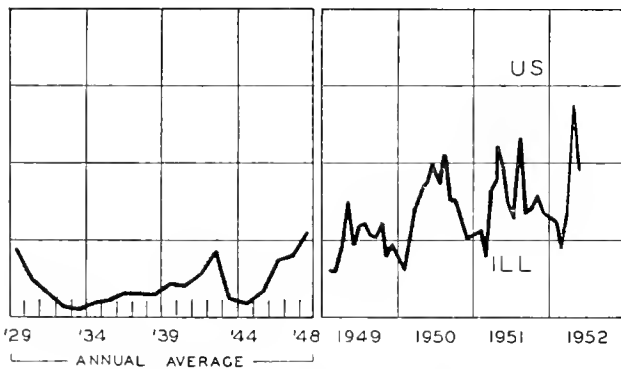
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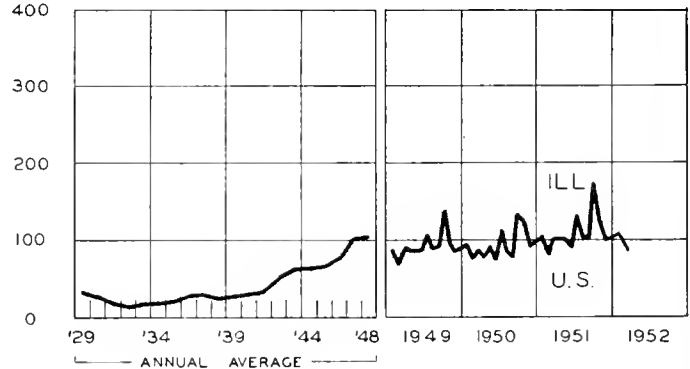
BUSINESS LOANS



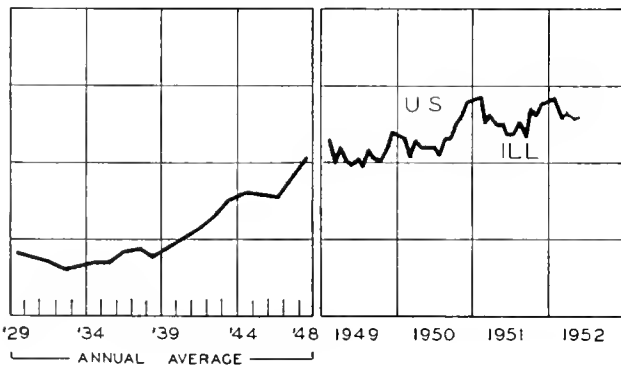
CONSTRUCTION CONTRACTS AWARDED



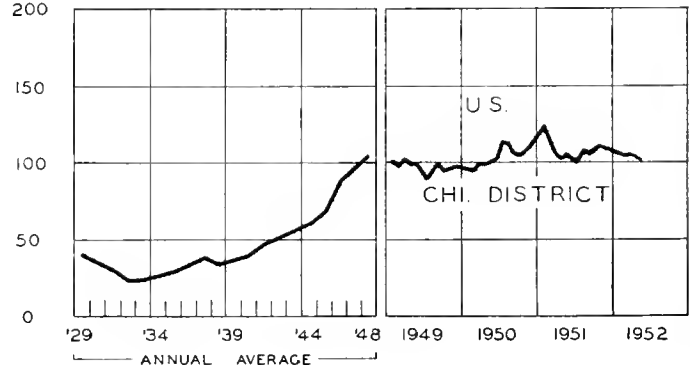
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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HIGHLIGHTS OF BUSINESS IN JULY

UNIVERSITY OF ILLINOIS

The effect of the steel strike began to spread through the economy in July with plants slowing operations or shutting down altogether as materials supplies began to run out. Railroad carloadings were down to the lowest level since 1935. The automobile industry was one of those hardest hit, with auto production in one week in July dropping to the lowest point since early 1946, when the General Motors strike occurred. The rubber industry was also affected as tire output was curtailed because of the lack of new cars. Although the strike ended toward the end of the month, full resumption of steel production was not expected until late in August.

Wholesale Prices Stable

Wholesale prices registered but slight change during July, the Bureau of Labor Statistics comprehensive wholesale price index hovering around the July 1 level of 110.7 percent of the 1947-49 average.

In a sweeping action retroactive to July 1, the Office of Price Stabilization removed price controls from 90 percent of fruit and vegetable products; this includes all frozen vegetables, fresh fruits, canned and frozen citrus juices, and fruits and concentrates. The action is essentially a formality in view of the fact that Congress had called for decontrol of processed fruits and vegetables in passing the new Defense Production Act. In taking this action, the OPS predicted that consumers would soon be paying higher prices for many of the decontrolled foods.

Department Store Sales Lag

Department store sales, which had been running consistently higher this June than during June of last year sagged again during July; the Federal Reserve index of department store sales dropped to about 80 percent of the 1947-49 average during the first two weeks of the month. There was good reason to believe, however, that the decline from last July was only temporary, being attributed in large measure to the political conventions and to the fact that July of last year witnessed a considerable number of sales and special promotions. Despite the slowdown, sales of appliances and

automobiles were reported doing very well, and even apparel sales had picked up in many cities.

Corporate Dividend Payments Rise

The average shareholder in American corporations received 5 percent more in cash dividends during the first half of this year than during the first six months of 1951. Total cash dividend payments in the recent period amounted to \$3.8 billion, based on a United States Department of Commerce compilation of dividends paid by corporations making public reports; this includes about two-thirds of all corporations in the nation. Dividend payments of nonmanufacturing firms rose 6 percent as compared with a 5 percent increase in the dividend payments of manufacturing firms.

In June alone, cash dividend payments amounted to \$1.2 billion, a 4 percent jump over the figure for last June. Dividend increases were greatest in gas utilities, up 16 percent; oil refining, up 11 percent; and mining and railroads, up 10 percent. Dividend payments in the transportation equipment and automobile industries registered slight declines.

Cattle Supply Picture Bright

The nation's families should be having plenty of beef with their meals for many months to come. More beef cattle were on feed for market in the 11 Corn Belt states as of July 1 than in any postwar year at the same date. Approximately half of the cattle slaughtered are fattened in this area. Cattle feeders in the three most important feeding states—Illinois, Iowa, and Nebraska—are reported to be planning to market 71 percent of their cattle now on feed within the next three months.

Additional factors were also present to brighten the meat outlook. Nation-wide cold storage holdings of beef on June 30 were more than a billion pounds, double those of a year ago. Total pork holdings, though down in June, nevertheless stood at the highest point for that date since 1944. At the same time, the number of cattle on the hoof is still rising and may reach 93 million by January 1, 1953; this would represent a 13 percent increase over a two-year period.

Because of the annual vacation of the University Print Shop this issue of the *Review* is reduced in size. It omits the usual statistical data, which are generally not yet available. We shall be glad to send copies of the missing tables to anyone requesting them. The next issue will contain the usual 12 pages.

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Monetary Policy and Control

Just prior to adjournment, when Congress was trying to clear the calendar in order to be free for the conventions, the Credit Control Subcommittee of the Joint Committee on the Economic Report released a report on *Monetary Policy and the Management of the Public Debt*. Among its recommendations was one for extension of selective controls over consumer and housing credit.

The Congress did not include these powers in the bill extending controls through next April—in effect going along with the dissenting views of the Chairman, Representative Patman (D., Tex.). Was this, as might seem on the surface, a repudiation of the Committee's recommendation? Did it express a judgment that credit controls were lacking in merit as compared with other controls?

Inconsistencies in Control Policy

The fact is that it had none of the significance that such questions might imply. The complete termination of credit controls reflects the deflation fears that were prevalent in the early part of the year more than any change in attitude toward the controls themselves.

Congressional action underwent a basic change in direction during the spring months. For a while every action taken—by the Administration as well as by the Congress—was seemingly in contemplation of peace and deflation. Expenditure ceilings were proposed as a means of limiting military programs; price controls were relaxed here and there; restrictions on consumer credit were removed and restrictions on housing credit were eased; Social Security benefits were liberalized; and large wage increases were recommended.

Then, at the end, partly as a result of new developments, there was a shift toward the opposite extremes. The economy drive failed to carry through; military appropriations were ample to carry a somewhat expanded program through the new fiscal year; and price and wage controls were extended. That credit controls were not included signifies nothing more than the fact that in the press to get off to the political campaigns this apparent inconsistency was never ironed out.

The attitude prevailing during the spring months is reflected in the report of the Credit Control Subcommittee. It approved abandonment of the voluntary credit restraint program, which was supposed to govern business loans, in these terms, "Programs of this character

are easily subject to abuse . . . and are unlikely to be uniform in their distribution of burden. . . . We believe that such programs should be resorted to only under extraordinary conditions."

The Committee expressed its faith "that general monetary, credit, and fiscal policies should be the Government's primary and principal means of promoting the ends of price stability and high level employment. . . ." But in the same paragraph it recommends the continuation of price, wage, and allocations controls as well as selective credit controls. Senator Douglas (D., Ill.) pointed out that such a recommendation in effect negated the statement of principle. He feels that the Committee is forced to advocate direct controls because it denies the short-run effectiveness of monetary policy.

Conflicting Views on Monetary Policy

The conflict in views extends to what monetary policy should do as well as to what it can do. The importance of this question is stressed by Senator Douglas when he says, " . . . If we do not know what kind of monetary policy we want, then we had better simply abolish the instruments of monetary policy, for they are entirely too dangerous to be used for ill-considered purposes."

But perhaps the Senator is merely trying to emphasize the importance of monetary measures at this point; for he leaves no doubt that he strongly advocates their use and feels that he knows how they should be used. He even goes so far as to propose a "mandate" for the Federal Reserve Board. His description of the norm of monetary action remains, however, rather vague and general. He wants it used simply "as a counterweight to cyclical economic fluctuations."

With the general outline of such a policy, the Committee as a whole agrees. In a depression there would probably be complete agreement; but it is precisely at such a time that monetary measures are lacking in effectiveness, because making funds available to people who do not want to spend them does not necessarily increase activity. Even in time of prosperity, there might be substantial agreement if the situation represented a normal business boom.

Where the issue becomes important is in precisely those situations where inflationary pressure appears not because of ordinary business developments but because of such special conditions as war or rearmament. In these conditions, the Government not only spends rapidly but requires private expenditures for getting its programs done. Then, if the Federal Reserve followed a truly independent policy of restriction, it would probably run counter to the objectives not only of the Treasury Department but of the Government as a whole.

It is perhaps unfortunate that the Committee majority did not take up the issue of the effectiveness of monetary measures in a more explicit way. It set forth valid criticisms of selective credit controls, without pointing out that some of those criticisms apply also to general monetary measures. It conceded the theoretical validity of a "sufficiently vigorous policy," without considering the practical feasibility of using measures so severe.

What saves the Committee's position is its insistence on action in accordance with the requirements of the situation, and not in accordance with any automatic indicator or fixed rule of thumb. It made definite progress in recognizing that Government action must be flexible and continuously adapted to current developments, and that coordination between monetary and other Government action is the only means of avoiding chaos. VLB

CANNING: A BILLION DOLLAR INDUSTRY

The canning industry plays a dual role in American agriculture. It not only makes fruits and vegetables available outside their growing seasons but also serves as a balance wheel in farm marketing, stabilizing prices for large amounts of perishable agricultural products.

In 1947 the total value of product for the canning industry was \$1.6 billion (exclusive of seafoods, meats, and milk), almost three times the total in 1939. The 2,250 canning establishments listed by the 1947 *Census of Manufactures* bought and packed the production from 1,850,000 acres of land planted in the 11 principal vegetables. In addition, there were many acres which supplied canneries with fruit.

Most canning plants are small, operating in rural areas to enable the quick handling of crops as they are harvested. Almost 40 percent of the plants in operation in 1948 were located in towns of less than 1,000 people.

In establishing plants, the industry looks for regions where the most favorable conditions for producing the raw product exist, and over the years canning operations have spread throughout the 48 states. The Middle West is the principal producing region for the canning of corn, peas, and tomatoes, the three major vegetable crops.

Food Processing in Illinois

The first vegetable canning plant in Illinois was established at Elgin in 1868. The industry soon appeared in other areas and by the 1880's Hoopeston had become a thriving young canning center. Rochelle moved toward national importance in the field immediately after World War I; as a result, large-scale vegetable farming operations were introduced in northern Illinois.

The Illinois Canning Company at Hoopeston is the oldest continuously operating firm engaged in vegetable canning in the State. It is one of the industry's foremost packers of canned corn, tomatoes, and tomato products.

In 1947 the products of the 84 Illinois canning plants listed by the *Census* were valued at \$131 million, a total exceeded only in New Jersey and California. Production was mainly in vegetables and specialty items; very little fruit is canned in the State. At least 110,000 acres were devoted to growing vegetables for food processing in Illinois last year.

Illinois canning plants are noteworthy for their size. On the average, the output per canning plant is about four times that of plants in the neighboring states of Wisconsin and Indiana.

There are two main canning areas in the State. Approximately half of the Illinois-canned corn and 90 percent of the peas are raised and packed in a belt extending from Sycamore to Freeport. The other main canning area has Hoopeston as its hub and accounts for the rest of the peas and most of the remaining corn pack. Nearly 10 percent of the nation's canned sweet corn is produced within a 35-mile radius of Hoopeston. The same area accounts for about 40 percent of the Country Gentleman variety canned each year. Illinois was second only to

Minnesota in sweet corn canning in 1951 with nearly 20 percent of total production.

Tomato-growing for canning purposes occurs primarily in the area stretching from Lomax, near the Mississippi River, to Hoopeston, although substantial amounts of tomatoes are transported from this general vicinity to plants in Chicago, Belleville, and Collinsville for use in making products with a tomato base.

Asparagus production occurs in the same areas as corn. Hoopeston is an important processor, while at Rochelle, a single plant packs almost 5 percent of the entire United States output of green asparagus. A canning plant at Streator was the first in the nation to pack this type of asparagus and today the State cans about 15 percent of the national production.

In addition to packing the major vegetable crops, Illinois ranked first in the 1951 production of canned pumpkin and squash with 25 percent of the total. Relatively minor quantities of lima beans and green beans are also canned in the State.

Chicago is outstanding in meat canning with more than 20 firms packing meat and meat products. The Chicago area is also an important producer of evaporated milk, first introduced at Highland in 1885. However, the majority of the nearly 75 firms listed by the 1951 *Canners Directory* as operating in the area produce specialties such as fountain fruits and sirups, baby foods, jams and jellies, spaghetti products, and Chinese foods.

Progress Through Mechanization

The foundation of the modern canning industry was laid in 1809 when a Parisian candymaker discovered that foods could be preserved by sealing them in airtight bottles which were then immersed in boiling water. Not until 50 years later when the bacteriological causes of food spoilage became known was there any scientific explanation of why the sterilization method worked.

The new process was soon widely used in Europe, but canning on a large scale became a distinctly American industry. With the growing popularity of the tin "can," plants appeared throughout the East during the 1840's. In order to supply the Union armies during the Civil War, output was increased by 600 percent.

In the 1880's many companies canned in summer and spent the winter making cans, which had to be hand-cut, hand-soldered, and hand-closed. Present day machine-formed cans were adopted about the time of World War I. After they are filled and the air is exhausted, the cans are sealed without the use of solder on double-seaming machines that turn out hundreds of cans a minute. The canning process is completed by sterilization and cooking in boiling water or pressure cookers. Preparation of the raw foods is also a highly mechanized procedure.

Production of canned foods last year reached the highest figure in the history of the industry. In all, there are now well over 400 canned food items available to meet individual tastes and preferences.

KNOW YOUR STATE

RECENT ECONOMIC CHANGES

Housing Starts Drop

The number of nonfarm dwelling units started during June dropped to 106,000, a fraction below the May figure. Total starts for the first six months dropped to 567,500, 3.8 percent below the first-half level of 1951. Between the first half of 1950 and the first half of 1951, the drop had been 16.4 percent. It appears, therefore, that the needs of the defense program for new nondwelling construction have leveled somewhat, and that declines in housing starts this year have been much less drastic than they were a year ago.

The number of housing starts during June, July, and August is being watched with considerable interest. The 1952 Defense Production Act provides that if seasonally adjusted figures fall below 100,000 units a month for three consecutive months, the required down payments on new homes must be reduced to 5 percent. The June total is expected to be short of the specified level after seasonal adjustment, and it is anticipated that starts during July and August will also be lower. However, housing starts during the latter months of the year will probably be higher than in the corresponding months of 1951.

Employment Up Seasonally

Employment in the nation rose sharply from May to June, as shown by the following Bureau of Census data (in thousands):

	June 1952	May 1952	June 1951
Civilian labor force	64,390	62,778	63,783
Employment	62,572	61,176	61,803
Agricultural	8,170	6,960	8,035
Nonagricultural	54,402	54,216	53,768
Unemployment	1,818	1,602	1,980

Total employment reached a new high for the month of June, rising more than 750,000 over the previous record set last year. Virtually all of the increase resulted from the larger number of workers on farms. Nonagricultural employment showed only a minor change. As usual, students hunting summer work filled most of the added jobs. Students who entered the labor force but failed to find work accounted for much of the rise in unemployment.

Unemployment figures do not include the 650,000 steel workers on strike since the Census Bureau counts striking workers as being employed. It does, however, include workers laid off among the unemployed. The secondary unemployment caused in steel-using industries by supply shortages had not yet appeared when the June survey was made, but July data are expected to show the effects of the steel stoppage.

Record Exports

Exports of United States merchandise climbed to a new high of \$1,461 million during May, slightly above the previous peak reached during World War II (May, 1944). April exports totaled \$1,334 million. In contrast, the value of imports fell nearly \$100 million to \$835 million. Consequently, the trade gap—the difference between exports and imports—widened sharply.

Increased shipments under the Mutual Security Program accounted for much of the rise in exports. Such shipments rose nearly \$80 million to \$231 million—nearly one-sixth of total exports. The machinery and vehicles group showed the largest advance, from \$478 million to \$553 million.

The drop in imports chiefly reflected lower imports of such primary commodities as rubber, petroleum, wool, copper, and coffee. It has been pointed out that consumption of imported products has exceeded imports since the first of the year, so that substantial quantities of imported commodities have been withdrawn from warehouses to make up the deficit.

Consumer Prices at High

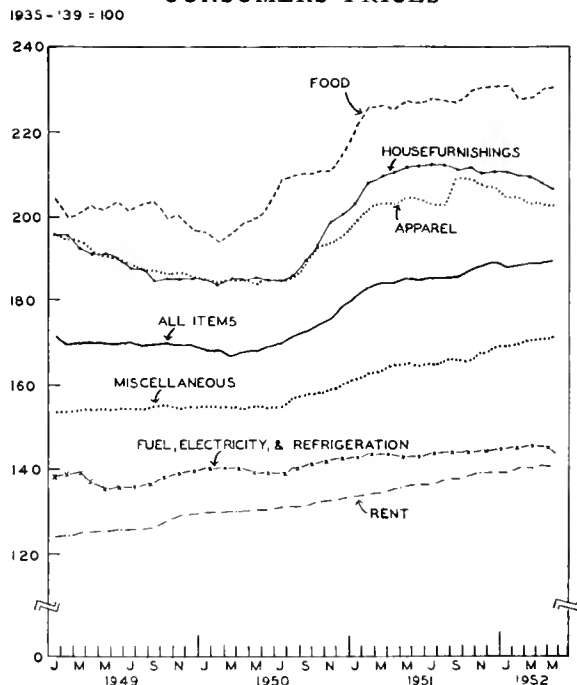
Consumers' prices moved up again in the month ended June 15, to 189.6 percent of the 1935-39 average. At that level, prices were 0.5 percent above the previous peak of 189.1 reached last December and January. The latest rise chiefly reflected higher prices for miscellaneous goods and services. Prices of other groups showed smaller changes.

In the past six months, while the over-all index has remained fairly steady or risen slowly, only rents and prices of miscellaneous items have shown a steady, if slight, advance. As shown by the accompanying chart, prices of apparel and housefurnishings have dropped well below their 1951 highs. The most important cause of the weakness of apparel prices was the maintenance of production in the face of slackened consumer demand and the resultant supply surplus. Prices for housefurnishings moved lower for two reasons: lessened fears of durables shortages, and the cut in residential construction last year.

For the future, further increases in the rent component of the index may be expected, since Federal rent controls expire September 30 in many more areas. The 1952 Defense Production Act provides for rent control expiration on that date except in communities which take individual action and in localities which are classified as defense areas with critical housing shortages.

Over the past year, changes in index components have been much smaller than during the previous 12-month period. The all-items index rose 2.4 percent during the year ended June 15.

CONSUMERS' PRICES



Source: Bureau of Labor Statistics.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Transistor Opens New Electronics Field

The Electronic Department of the General Electric Company reports that a whole new electronics business is growing out of the development of the transistor, said to be a potential successor to the vacuum tube. Transistors are made of germanium, which is recovered as a by-product in the smelting and refining of zinc ores. Since they contain no heated element they never "burn out" and last indefinitely. The giant digital computers, or magic brains, which now use several thousand vacuum tubes and occupy a large-size room can conceivably become small enough to be applied to everyday business and industrial problems as are comptometers. Most of the telephone, industrial control, and business machine applications can be filled by the transistor; it will become practical to build amplifiers for use on transoceanic telephone cables. The simplicity and ruggedness of the transistor will have a direct effect also on military electronics, especially on airborne equipment. It will not, however, completely replace the vacuum tube, which will still be required for such purposes as the radio-frequency part of television sets and for the microwave applications of communications and military equipment.

Steel-Coating Process

A new dipping method designed for coating steel and other ferrous metals with aluminum was announced recently by the General Motors Research Laboratories (1775 Broadway, New York 19, N. Y.). The process, called "Aldip," has two important applications. Since it is termed a corrosion- or rust-resistant coating for ferrous metals it could, in some instances, replace zinc-coated metals. It has been found, also, that when diffused by heat treatment, Aldip becomes a heat-resistant material which could conserve several strategic alloys now used in high temperature applications. Although other methods are used for coating steel with aluminum by "hot dipping," they have proved to be commercially impracticable or too costly for large-scale production. The General Motors process is described as simple to operate, practical, and relatively low cost for producing an aluminum base alloy coating over quality ferrous metal. It can also be utilized for coating sheet, wire, or rod stock.

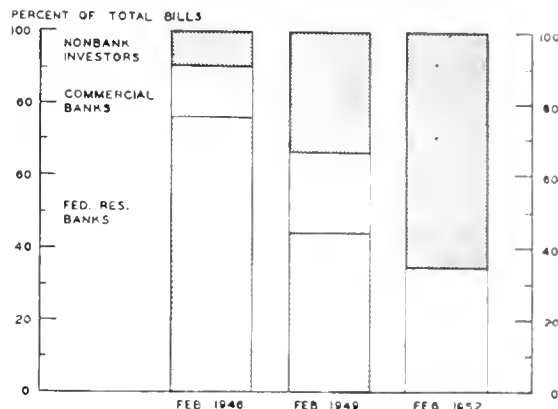
Treasury Bill Market

"Treasury Bills Assume a New Role" is one of the topics discussed in the July, 1952, issue of *Business Conditions*, a review published by the Federal Reserve Bank of Chicago. In order to meet Government deficits the Treasury has increasingly turned to the 91-day Treasury bill, called the "work horse of the new money program." Between June, 1950, and June, 1952, increased regular bill offerings raised a net of nearly \$4 billion, almost as much new money as was raised by the widely publicized 2½ percent bond offering.

The bill market today is very different from what it was at the end of World War II when the stabilization of interest rates pushed most of the growing volume of Treasury bills into the Federal Reserve Banks. Between 1947 and 1949 the Treasury systematically reduced its weekly bill issue, with the net redemption of over \$5 billion concentrated entirely in holdings of the Federal Reserve System, which had completely disposed of its

bills by early this year. Some were acquired by commercial banks but the major new development (as shown by the chart) has been the heavy buying of bills by nonbank investors, primarily corporations which are seeking temporary investment outlets and which are attracted to Treasury bills by rates which have steadily moved upward to a level now more than four times the fixed war-time figure. Growing demand has caused the Treasury to gradually increase bill offerings until the total outstanding stood at an all-time high of \$18.4 billion in June.

HOLDINGS OF TREASURY BILLS



Source: Federal Reserve Bank of Chicago.

Automatic Abrasives Production

A new method of making coated abrasives with the help of radioisotopes and automation, the science of fully automatic controls, is now in operation at the coated products division plant of the Carborundum Company in Niagara Falls, N. Y. Modern precision grinding has led to demand by users for very close controls. Although the commonest form of coated abrasive is sandpaper, the commercial product comes in rolls, disks, belts, and pads with many variations in the abrasive material. Using a continuous-process set-up, technicians can control thickness and density of adhesive coating at levels of accuracy never before achieved. While the use of beta ray controls to assure uniform thickness of material is not new, the integration of such controls with automation is believed to represent a significant advance of interest for similar industrial applications.

Lightweight Building Panel

A special "honeycomb" type of construction technique has been made possible by the discovery of a new lightweight construction material with effective insulating and strength qualities. A four inch thick panel of the material is said to have insulating qualities equal to a two-foot-thick masonry wall. The structural material, named Cyclocore, has been developed by the Chrysler Corporation, Detroit, Michigan, and is now available in commercial quantities. Primarily intended for interior building partitions, the panels are made by sandwiching honeycomb-shaped impregnated paper "filling" between sheets of metal, wood, plastic, or asbestos cement. The filler and so-called "skins" are permanently bonded by an adhesive.

STATE TAX SOURCES IN ILLINOIS

H. K. ALLEN, Professor of Economics

The salient features in the development of state tax systems in the United States during the present century and particularly since 1930 are the decline in the importance of the property tax, the greatly increased emphasis upon consumption taxes, the adoption of highway-user taxes, and the levy of low-rate taxes on corporate and individual incomes. With the exception of income taxes, which are not levied in Illinois and twelve other states, the development in Illinois roughly parallels that of the other states.

For all 48 states combined, property taxes produced 51.6 percent of total tax collections in 1903, but only 3.9 percent of the total came from this source in 1951, as can be seen from the table. No general property tax levy for State purposes has been made in Illinois since 1932 and only 0.1 percent of total State tax revenues was derived from property taxes during the year that ended

Sales Tax Largest Revenue Producer

The major tax on consumption in Illinois and the State's most important source of revenue is the retailers' occupation tax, popularly known as the "sales tax." This tax, the rate of which is 2 percent of 98 percent of gross sales of tangible goods sold at retail (less certain exceptions), produced \$187,556,000 in 1951, or 44.7 percent of total State tax revenues. Collections from general sales or gross receipts taxes for all 48 states combined amounted to 22.5 percent of total tax revenues in 1951.

The higher percentage of total tax collections derived from the sales tax in Illinois as compared with all 48 states results to a considerable extent from the fact that approximately one-third of the states do not levy such a tax. It is true, nevertheless, that sales tax revenues in Illinois were exceeded in 1951 only in California and Michigan. The 3 percent rate of California produced \$401 million and the yield from the same rate in Michigan was \$247 million. In five other states besides California and Michigan the rate of the sales tax in 1951 was 3 percent; two states used a 1 percent rate; and the others levied a rate of 2 percent.

Originally adopted in Illinois in the early thirties as a temporary measure to relieve the property tax and to help finance increased expenditures arising from the depression, the sales tax has apparently become firmly established as a permanent feature of the State's tax system. The sales tax is a lucrative source of revenue; it is convenient to pay; it has a relatively low cost of administration; and it is a comparatively stable source of revenue.

The chief objection to the sales tax is that it is regressive in effect; that is, its impact is more burdensome upon families, especially large families, in the low income groups than it is upon those in the high income brackets. Several states have attempted to mitigate the regressivity of the sales tax by exempting food from the levy. Legislation to exempt food from the sales tax was proposed in Illinois in the middle forties, but the plan was abandoned when it became known that such exemption would probably be

unconstitutional. Whether or not adoption of the proposed constitutional amendment previously mentioned would render exemption possible is not clear.

In any event, the case for exemption rests essentially upon availability of nonregressive types of taxes which can be used to recoup the revenue now derived from food sales. A progressive individual income tax is the type of levy indicated, but such a tax has been held unconstitutional in Illinois. Aside from the legal problem, such a change may well be precluded by the highly progressive rates of the Federal income tax.

Many millions of dollars in revenue are lost every year in Illinois because numerous occupations which involve the transfer of tangible personal property for use or consumption have been exempted from the sales tax by court decisions and rules of the Department of Revenue. Among the major categories exempted are construction contractors, repair services, and sellers of goods

STATE TAX REVENUES: 1951^a
(In thousands of dollars)

Type of Tax	48 States		Illinois	
	Amount	Per- cent	Amount	Per- cent
General sales or gross receipts	\$2,001,254	22.5	\$187,556	44.7
Highway-user:				
Motor vehicle fuels	1,710,160	19.2	61,602	14.7
Motor vehicles and operators	840,308	9.4	45,770	10.9
Other license and privilege	519,082	5.8	11,507	2.7
Income:				
Individual	804,876	9.0	.....	...
Corporation	687,339	7.7	.....	...
Alcoholic beverages	468,766	5.2	25,915	6.2
Tobacco products	429,969	4.8	27,828	6.6
Insurance	254,001	2.8	16,121	3.8
Public utilities	199,472	2.2	25,704	6.1
Pari-mutuels	109,597	1.2	8,300	2.0
Admissions and amusements	12,900	0.1	481	0.1
Property	345,981	3.9	297	0.1
Death and gift	195,616	2.2	8,618	2.1
Severance	221,710	2.5	.....	...
Other	133,418	1.5	.....	...
Total	\$8,934,449	100.0	\$419,249	100.0

Source: U. S. Bureau of the Census.

^a Excludes unemployment compensation taxes.

June 30, 1951. The small amount collected in 1951 came from collection of delinquent taxes on levies for 1932 and earlier years, and from a tax on the personal property of private car-line companies which was adopted in 1943.

Although the general property tax has been abandoned for State purposes in Illinois, this tax is still the major source of revenue for the State's 8,000 local governmental units. Property tax levies of the local units in 1950 amounted to approximately \$566 million—substantially more than was produced by all State taxes. Abandonment of the property tax by the State government in Illinois is to be commended. This development has given the local units greater flexibility in meeting their needs for increased revenues. Unfortunately, gross inequalities exist in the distribution of the property tax burden among various classes of property. The proposed amendment to the Revenue Article of the Illinois Constitution, which will be submitted to the voters next November, has for one of its purposes the alleviation of this condition.

made on special order. An attempt was made in 1949 to plug up these loopholes by means of appropriate occupation taxes but the bills failed of adoption. Elimination of exempted categories and application of occupation taxes (with the same rate as the sales tax) to most service trades and professions would render possible a reduction in the rate of the tax without a decline in yield.

Other Taxes on Consumption

The highway-user category includes taxes on motor vehicle fuels and license fees on motor vehicles and operators. For all states combined, the former accounted for 19.2 percent of total revenues and the latter produced 9.4 percent of the total. In Illinois, 14.7 percent of total revenues came from the motor fuel tax and 10.9 percent from licenses on motor vehicles and operators.

The relatively lower yield of the motor fuel tax in Illinois arises from the fact that the 3-cent rate, effective during the year which ended June 30, 1951, was lower than the rate in most other states. The rate in Illinois was increased to 4 cents during the second half of 1951, and a further increase of 1 cent is scheduled for January, 1953. With these increases it seems probable that the yield of the motor fuel tax in Illinois will be brought fully abreast of the nation-wide average.

Substantial increases in truck license fees became effective in Illinois this year. A vigorous effort will be made by the truck owners to reduce these fees when the General Assembly meets in 1953. With allowance for some reduction in existing fees, it appears that revenues from this source in Illinois will be higher than the average for the country as a whole for at least the next few years.

In addition to the high Federal taxes on liquors and tobacco, these commodities have also been singled out for heavy taxation by the states. State excises on alcoholic beverages yielded 5.2 percent of total state tax revenues in 1951, and receipts from tobacco taxes, primarily on cigarettes, accounted for 4.8 percent of total receipts. The comparable figures for Illinois were 6.2 percent and 6.6 percent, respectively, or slightly higher than the nation-wide averages. The tax on tobacco products in Illinois is limited to the cigarette tax, the rate of which is 3 cents a pack. The rates of the State taxes on alcoholic beverages in Illinois are as follows: beer—4 cents a gallon; alcohol and spirits—\$1.00 a gallon; and wine—15 or 40 cents a gallon, depending on its alcoholic content.

High taxes on liquors and tobacco have been defended as a means of controlling consumption, but their effectiveness in this respect is questionable. Excessively high taxes on these commodities, particularly alcoholic beverages, encourages illicit traffic. In view of the widespread use of beer and cigarettes by low income groups, it is doubtful whether the taxes on these commodities are substantially less regressive than the general sales tax. The latter, however, has many advantages over the former.

Revenues from pari-mutuel taxes consist of receipts from levies on wagering at horse-racing tracks. This system has been in operation in Illinois since 1927. Several states levy general taxes on admissions to amusement places, but the only tax of this type used in Illinois is the 20-cent tax on admissions to horse-racing tracks. Betting on horse racing at points away from the track is not legal in Illinois.

Taxes on public utilities produced 2.2 percent of total state tax collections in 1951, whereas this source ac-

counted for 6.6 percent of total revenues in Illinois. Gross receipts of electric, gas, telephone, and telegraph companies in Illinois are subject to a rate of 3 percent. These companies, by a court decision, are not subject to the sales tax. Hence the taxes are looked upon as complements of the sales tax.

Miscellaneous Taxes and Proposed Changes

The other categories of taxes listed in the table are of minor importance both in Illinois and for the country as a whole. Revenues from other licenses and privileges include all receipts from these sources except motor vehicle and operators' licenses which are included in the highway-user category. Revenues from other licenses and privileges in Illinois consist primarily of receipts from various types of business and professional licenses. Revenues from insurance companies in Illinois came mainly from a 2 percent tax upon gross premiums covering risks within the State.

The Illinois inheritance tax produced 2.1 percent of total State tax collections in 1951—about the same as the country-wide average of 2.2 percent. Administration of this tax in Illinois is excessively decentralized and diffused, and several changes of a technical nature are desirable.

As previously mentioned, the income tax is not a feature of the Illinois state tax system. Approximately three-fourths of the states employ some type of income tax. The individual income tax produced 9.0 percent of total state tax revenues, and the corporation income tax accounted for 7.7 percent of total collections in 1951.

In 1932 the Illinois General Assembly adopted a graduated personal income tax, but it was declared unconstitutional by the Supreme Court on the ground that it contravened the uniformity requirement of the Constitution. The proposed amendment to the Revenue Article which will be voted upon in November contains, among other provisions, a specific prohibition of a progressive personal income tax. In view of the legal obstacles and the highly progressive rates of the Federal tax, it is unlikely that a graduated personal income tax will be adopted in Illinois in the near future.

A franchise tax on corporations, measured by net income, would probably be constitutional in Illinois. A bill which provided for a 1 percent levy of this type on non-banking business corporations and a companion bill applicable to banks were considered by the General Assembly in 1949, but both measures failed of adoption. These proposed taxes were intended to serve as substitutes for the grossly inequitable current levies on capital stock (corporate excess) and bank shares.

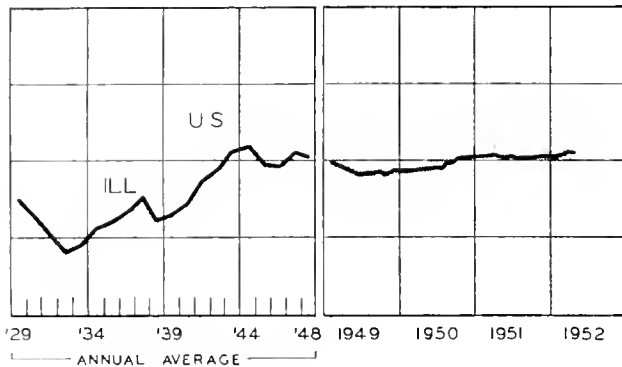
Severance taxes consist of levies on the extraction of natural resources. It will be noted that Illinois has no taxes of this type. A strong case can be made for the substitution of severance taxes on mining and other extractive industries for the existing poorly administered property taxes on these companies.

The most urgent changes needed in the Illinois tax system are to eliminate most of the exempted categories of the sales tax; to substitute a low rate corporation income tax for existing property taxes on capital stock (corporate excess) and bank shares; to levy severance taxes on the extractive industries in place of prevailing taxes on properties of these industries; and to improve the administration of all taxes, particularly the inheritance tax. At the local level an urgent need exists for improvement in the administration of the property tax.

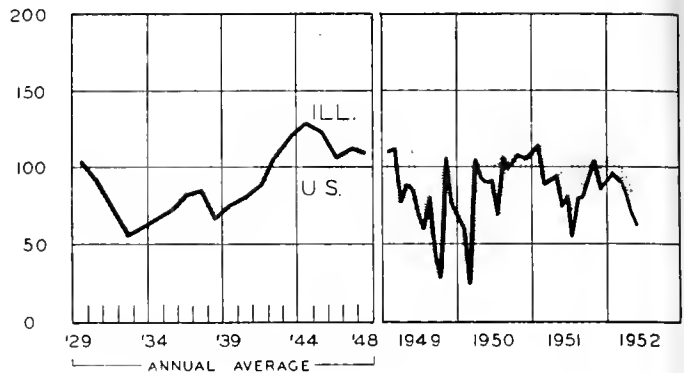
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

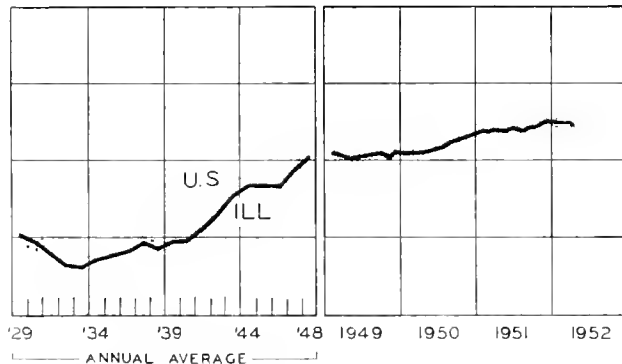
EMPLOYMENT - MANUFACTURING



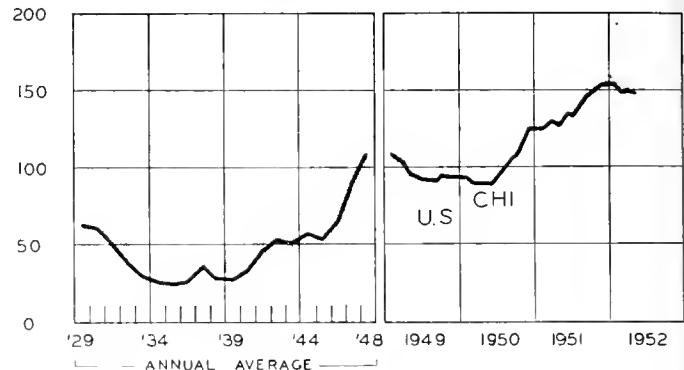
COAL PRODUCTION



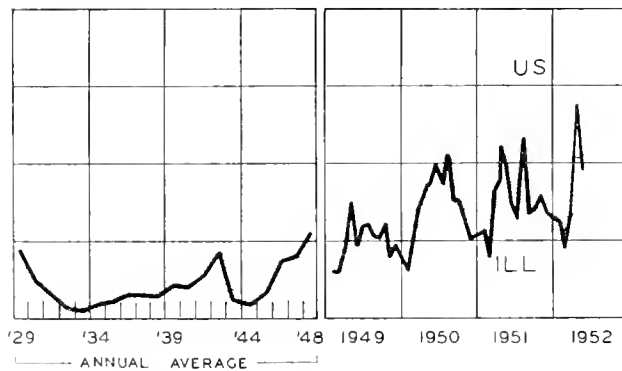
AVG. WKLY. EARNINGS - MANUFACTURING



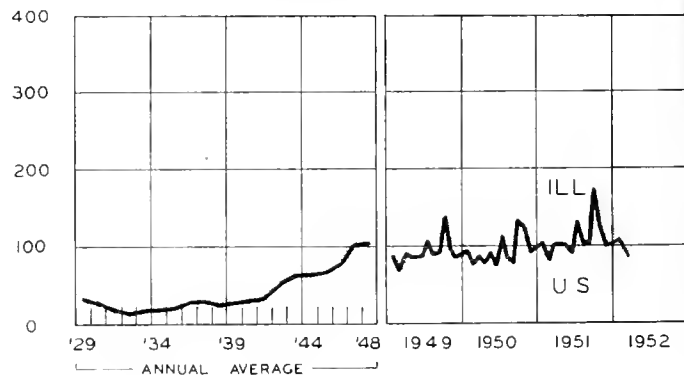
BUSINESS LOANS



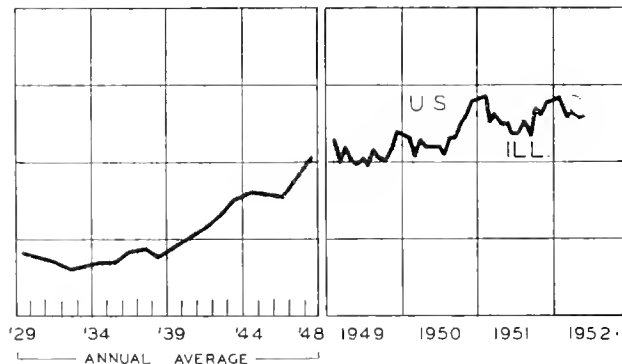
CONSTRUCTION CONTRACTS AWARDED



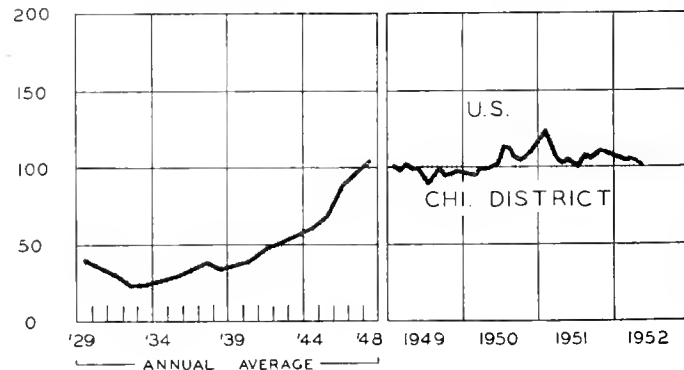
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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NUMBER 9

HIGHLIGHTS OF BUSINESS IN AUGUST

Recovery from the effects of the steel strike was more rapid than had been expected. The Federal Reserve index of industrial production, which had slumped to 191 in July—the lowest point since April, 1950—is estimated to have rebounded to 212 in August. By the first week in September, steel production was running at capacity, and reports were that much of the industry's pre-strike backlog of military, atomic energy, and machine tool orders would be filled by September 30. Automobiles is another industry that has shaken off the effect of the steel strike in short order. The industry hopes to nearly double its August output of 240,000 cars in September and is aiming for a fourth-quarter assembly of 1.2 million cars; except for 1950, this would make the highest fourth quarter car production record in 16 years.

Judging by recent trends in department store sales, the steel strike exerted a moderate effect on retail trade. The Federal Reserve index of department store sales fell almost 5 percent from June to July, but recovered in August to top the June figure on a seasonally adjusted basis and exceed the August, 1951, figure by nearly 5 percent. It may be significant to note that the margin over 1951 increased steadily every week of the month.

Nonfarm Employment Picks Up

Reflecting the upsurge in industrial activity, nonfarm employment in August increased by 750,000 over the July level, to 55.4 million. This is about half a million larger than the number of workers in nonfarm employment in August, 1951. Total employment, however, at 62.4 million, was nearly 300,000 below last August, as farm employment, continuing its midsummer decline, dropped 600,000. This brought farm employment to slightly under 7.0 million, or 10 percent below the level of last August. Unemployment was down to 1.6 million in August—substantially the same figure as in August of last year.

Retail Prices at Peak

Retail prices continued to set new record highs while wholesale and farm prices showed little change; this was the somewhat paradoxical situation on the price front in the summer of 1952. Food prices constituted the crux of the matter. Although farm prices showed no change, on the average, for the month ended August 15, the Bureau of Labor Statistics retail food price index rose nearly one

percent in the first half of August. The increase brought the index to an all-time high of 235.6 percent of the 1935-39 average, 16 percent above the pre-Korean War, June, 1950, level.

Higher food prices also proved the main cause for the new high attained by the consumers' price index in the month ended July 15. The new level of 190.8 percent of the 1935-39 average represents an increase of 0.6 percent above the previous, June high.

Government Deficit Down

The estimated Federal budget deficit in the current fiscal year, ending June 30, 1953, has been lowered to \$10.4 billion from the \$14.4 billion anticipated last January, according to the midyear budget review of the President. The estimate of the cash deficit, the excess of funds paid out over those taken in by the Government, was lowered from \$10.4 billion to \$6.8 billion.

Substantially lower expenditures on national security programs—military forces, foreign aid, atomic energy, and civil defense—mainly account for the improved budget picture. The estimated deficit would have been still further reduced were it not for an expected drop of about \$3.0 billion in direct corporate tax receipts, which resulted from a lower estimate of corporate profits in 1951 and 1952.

Britain's Reserves Slump

The gold and dollar reserves of Great Britain and the other sterling area countries slumped again in August, following a momentary gain in July. A net loss of \$43 million brought the sterling area's reserves down to \$1.7 billion, well below the \$2.0 billion generally regarded as the minimum for safety. A major cause of the decline was payment of \$98.6 million by Britain to offset an adverse balance of trade incurred in July with other members of the European Payments Union. American aid to Britain amounted to \$45 million in August.

The new drop in reserves, although disappointing, is well below the \$210 million decline in reserves incurred monthly early this year. Britain's policy appears to have been successful, on the whole, in stemming the drain of reserves, but its success in the long run will depend largely on indirect and furnished by this country in such forms as overseas investments and reduced tariff barriers.

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Limits on Interest Rate Policy

In most discussions of monetary policy, the interest rate is treated simply as an instrument of control. All that is considered is how much stabilization can be accomplished by changing rates, or by other measures of credit control.

The interest rate is, however, not primarily an instrument of monetary policy. It is first of all a price, the price for loanable funds, which determines the income of lenders as a group. It is also a social and economic institution of long standing and extended controversy.

Factors Affecting the Interest Rate

A widely accepted view regards the rate of interest as being determined in a "free" competitive market, except to the extent that government policy interferes with the forces of competition. Specifically, it is charged that the low interest rates of recent years are purely the result of government manipulation. In this connection, there is a tendency to ignore the fact that the depression was largely responsible for the decline to those levels.

It is true that rates, mostly at their lows by 1940, were kept low during the war as a matter of national policy. The government was then practically the sole borrower and had to draw upon the banking system despite an unprecedented increase in savings. It appeared that the nation could neither accomplish anything useful by allowing interest rates to rise nor could it tolerate any indication of a weakening of confidence in the government's credit. The Federal Reserve provided the means of keeping rates down by supporting government security prices at par.

In the postwar period, with a public debt of over \$250 billion outstanding, there again seemed little to be gained by letting interest rates go up; so the wartime policy of "pegging" was continued. As long as the "peg" was maintained, however, banks and other lenders could replenish their reserves by turning government securities over to the Federal Reserve, and this provided a ready means of expanding credit into other outlets, usually at higher rates. Throughout the decade, the expansion of loans and investments continued, with the tremendous rise in volume providing increased profits from lending operations even though rates remained low.

Only with the sharp inflationary upsurge following the Korean outbreak was there a strong argument for re-

moval of the "peg." Accordingly, after extended controversy, prices of government bonds were allowed to fall below par, freeing the Federal Reserve to restrict credit and thus put a brake on expenditures that required credit financing. The new policy was announced in the so-called Treasury-Federal Reserve "Accord" of March, 1951, as part of which the Federal Reserve undertook to maintain an orderly market for government securities. Ironically, the inflationary advance in commodity prices was then just about halted. (See p. 5)

There can be no question that the government has acted to restrict charges on the public debt. It is hardly correct, however, to hold that all the interferences with competition in the money market are governmental in origin. These markets are stratified in various ways. Lenders typically limit themselves to certain types of loans and make them only in limited areas. Most borrowers have access to only a few sources of funds and habitually continue financial relationships that have been established. Under these circumstances, it is inevitable that various kinds of monopolistic practices should develop, just as they have in most other lines of business.

Federal Reserve Policy

With the removal of the "peg," interest rates moved up sharply, making new post-depression highs by the end of 1951. Thereafter, most rates remained fairly stable, but rates on bank loans continued to rise.

Within the last year the Federal Reserve has twice exercised its newly acquired "independence" to tighten money markets. Last December, and again in July, seasonal factors combined with government financing operations to create a sharp temporary increase in demand for short-term funds. Although a primary function of the Federal Reserve is to maintain flexibility of the money supply in just such situations, both times it stayed out of the market, letting the shortage develop until the point of disorder had been approached. Following the second occasion, on August 12, the Federal Reserve Bank of New York conceded that the Treasury bond market had declined too far. The quick firming of rates on both these occasions may be taken as an indication that the "market" is prepared to go as far in putting rates up as the Federal Reserve will permit.

The Federal Reserve is apparently operating on the philosophy that there is a clear mandate for the use of its full powers to counter any inflationary tendencies which may appear. It takes hardly more than a glance at the economic and political scene, however, to discover conflicting views as to both ends and means.

In spite of general sympathy for those whose incomes are fixed at a low level, there is no apparent consensus that price stabilization is an over-riding objective of national policy. The advantages of complete stabilization of the price level are theoretical, and it cannot be shown that such a policy is clearly in the national interest under present circumstances.

Nor can it be shown that the monetary measures so far undertaken have been effective in bringing about the price stability of the last year and a half. The basic reasons for that stability—primarily recognition by both business and consumer that inventories were accumulating at too rapid a rate—are entirely unrelated to the monetary measures undertaken.

It seems clear that up to this point no real restriction of credit has been achieved by the actions taken. The

(Continued on page 6)

POSTWAR BOOM IN FARM MACHINERY

Farm purchases of agricultural machinery and equipment hit an all-time peak of \$3 billion in 1951, more than five times the total for 1940. During the same ten-year period, employment in the farm machinery industry more than doubled.

It has been estimated that there was twice as much mechanical power on farms in 1950 as in 1940. The physical volume of farm machinery purchased from 1949 through 1951 alone was slightly greater than the volume purchased during the entire decade of the 30's.

Huge postwar demand for farm implements was the result of World War II restrictions on industrial production and the exceptional prosperity of farmers, combined with tightness of labor supply and high labor costs. Without significant expansion in crop acreage and despite a decreasing number of farm workers, production on American farms has risen 29 percent since 1941, a continuation of a trend largely attributable to increasing mechanization of agriculture.

Illinois Leads the Nation

Although there are farm machinery plants in almost every state, production is concentrated in the Great Lakes area. One-third of the \$1.8 billion value of farm machinery and tractors shipped in 1950 was produced in Illinois, the first ranking state in the industry. The 91 Illinois companies listed by the 1947 *Census of Manufactures* as producers of farm equipment (excluding tractors) employed 29,000 workers, 30 percent of the industry total.

There are about 1,600 firms manufacturing farm implements in the nation, but nine companies produced approximately three-fourths of the output in 1950. The larger companies have the lion's share of the business and their positions are supported by their well-established dealerships. In addition to companies manufacturing a complete line of farm equipment, however, there are hundreds of concerns which build specialized machines.

The two largest farm equipment manufacturers in the nation have their headquarters and most of their manufacturing facilities in Illinois. The International Harvester Company in Chicago is the world's largest manufacturer of farm machinery. Its parent organization, the McCormick Harvesting Machine Company, was founded by Cyrus H. McCormick, inventor of the reaper in the 1830's and one of the earliest manufacturers in Illinois.

The second largest firm in the industry, John Deere and Company, has had its main plants at Moline since 1847 when the company was established by the pioneer blacksmith who was the first manufacturer of steel plows.

Other leading companies with plants in Illinois are the J. I. Case Corporation, located at Rockford and Rock Island; the Oliver Corporation, with manufacturing facilities at Shelbyville; and the Minneapolis-Moline Company, which has a large plant at Moline.

In addition, there are other important manufacturing concerns in Illinois who sell only a part of their output to

farmers. They include the Caterpillar Tractor Company at Peoria, whose Diesel tractors are commonly used on farms, and the AVCO Manufacturing Corporation, whose New Idea Division has a plant at Sandwich.

Power Farming — The Tractor Age

Nearly every phase of farm progress has centered around tractor power since World War I when the recently developed "gasoline traction engine" first proved its worth by making possible a marked increase in farm production in spite of a manpower shortage and a considerable loss of farm animals to the army.

Two significant developments in the trend toward smaller machines suitable for use on the ordinary Middle Western farm were the tricycle-type tractor introduced in 1924, and the use of rubber tires on tractors in the early 1930's which increased the speed of field operations by 25 to 50 percent.

Tricycle-type tractors made possible for the first time mechanical crop work by rows. After their development, tractor-powered planters began to appear. The speed and accuracy of tractor-powered planters in the rush of spring work have had much to do with the record yields of recent years.

Tractors brought extensive changes in the manufacture of harvesting machinery and were responsible for the rise of the combine, the machine which does the work of the reaper, binder, and thresher together. Although the combine dates almost as far back as the reaper, it was not very successful until powered by tractors. Without the combine, soybeans would never have become the major crop they are today.

The combine is often considered the greatest single labor-saving farm machine. It has been noted that no more labor is required to harvest grain with a modern combine than was formerly needed to cook the meals for binder and thresher crews.

A rapidly increasing proportion of farm work is being done by tractors and there is a trend toward tractor-mounted or semi-mounted equipment, much of it hydraulically controlled. This equipment, mounted directly upon the tractor and easily removable by one man, makes the implement a part of the tractor itself. A smaller percentage of farm implements are self-propelled.

The tricycle-type tractor serves as an ideal carrier both for many types of implements used on light jobs formerly done by horse-power, such as cultivating and planting, and for newer types of machinery such as corn pickers, mowers, and hay pick-ups and balers.

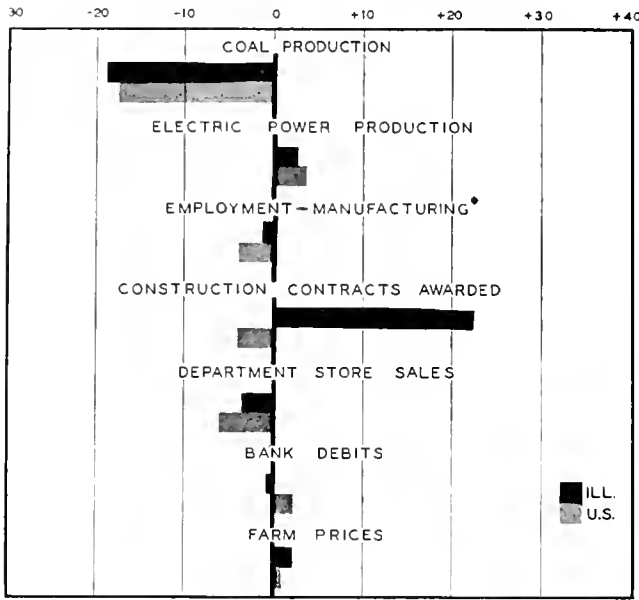
There are an estimated 4.5 million tractors in use on American farms. This equipment alone is saving farmers nearly 2 billion man-hours a year. Much of the time gained goes into more diversified farming operations—more livestock, poultry, and specialty crops, including fruits and vegetables, which add to farm income and contributes so much to the American standard of living.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes June, 1952, to July, 1952



* May, 1952, to June, 1952.

ILLINOIS BUSINESS INDEXES

Item	July 1952 (1947-49 =100)	Percentage Change from	
		June 1952	July 1951
Electric power ¹	130.9	+ 2.2	+10.2
Coal production ²	45.1	-19.1	-15.5
Employment—manufacturing ³	102.1	- 1.2 ^a	- 2.8 ^b
Payrolls—manufacturing	n.a.		
Dept. store sales in Chicago ⁴	94.3 ^c	- 2.9	- 5.7
Consumer prices in Chicago ⁵	115.2 ^d	+ 0.2	+ 2.6
Construction contracts awarded ⁶	204.8	+22.0	+57.9
Bank debits ⁷	133.5	- 0.4	+12.1
Farm prices ⁸	116.4	+ 2.0	- 2.3
Life insurance sales (ordinary) ⁹	126.8	+ 1.8	+ 7.1
Petroleum production ¹⁰	94.1	+ 0.3	- 0.5

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a May, 1952, to June, 1952. ^b June, 1951, to June, 1952. ^c Seasonally adjusted. ^d On 1935-39 base, the index was 195.9. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	July 1952	Percentage Change from	
		June 1952	July 1951
	Annual rate in billion \$		
Personal income ¹	264.2	- 0.9	+ 3.8
Manufacturing ¹			
Sales	258.0 ^a	- 1.4	+ 1.4
Inventories	42.0 ^{a, b}	- 0.7	+ 5.3
New construction activity ¹			
Private residential	12.1	+ 2.9	+ 4.4
Private nonresidential	11.8	+ 3.9	- 2.0
Total public	12.9	+ 2.3	+19.2
Foreign trade ¹			
Merchandise exports	12.1	-13.0	-14.1
Merchandise imports	10.0	- 2.8	- 6.5
Excess of exports	2.1	-41.8	-37.8
Consumer credit outstanding ²			
Total credit	21.2 ^b	+ 1.2	+10.8
Installment credit	14.7 ^b	+ 2.3	+14.2
Business loans ²	20.6 ^b	+ 0.1	+ 7.6
Cash farm income ³	n.a.		
	Indexes (1947-49 =100)		
Industrial production ²			
Combined index	103 ^a	- 5.9	- 9.9
Durable manufactures	104 ^a	- 9.3	-15.5
Nondurable manufactures	105 ^a	- 3.7	- 3.7
Minerals	98 ^a	- 2.7	- 8.3
Manufacturing employment ⁴			
Production workers	99 ^a	- 2.6	- 6.9
Factory worker earnings ⁴			
Average hours worked	100	- 1.2	- 0.7
Average hourly earnings	124	- 0.5	+ 3.3
Average weekly earnings	124	- 1.7	+ 2.5
Construction contracts awarded ⁵	198	- 3.3	+ 9.5
Department store sales ²	105 ^a	- 5.4	0.0
Consumers' price index ¹	114 ^c	+ 0.6	+ 2.9
Wholesale prices ⁴			
All commodities	112	+ 0.5	- 2.1
Farm products	110	+ 2.8	- 0.8
Foods	110	+ 1.4	- 0.6
Other	113	- 0.0	- 2.7
Farm prices ³			
Received by farmers	109	+ 1.0	+ 0.3
Paid by farmers	115	0.0	+ 1.4
Parity ratio	103 ^d	+ 1.0	- 1.0

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ^a Seasonally adjusted. ^b As of end of month. ^c On 1935-39 base. 190.8. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1952					1951
		Aug. 23	Aug. 16	Aug. 9	Aug. 2	July 26	Aug. 25
Production:							
Bituminous coal (daily avg.)	thous. of short tons	1,833	1,650	1,590	1,392	1,117	1,792
Electric power by utilities	mil. of kw-hr.	7,718	7,627	7,495	7,405	7,328	7,077
Motor vehicles (Wards)	number in thous.	101 6	32 6	43 9	18 8	36 3	131 9
Petroleum (daily avg.)	thous. bbl.	6,209	6,204	6,181	6,047	5,983	6,140
Steel	1935-39 = 100	225 9	217 1	208 9	99 8	35 6	224 8
Freight carloadings	thous. of cars	834	806	782	733	607	839
Department store sales	1947-49 = 100	100	95	90	87	79	97
Commodity prices, wholesale:							
All commodities	1947-49 = 100	112 2	112 0	111 9		111 8	113 7
Other than farm products and foods	1947-49 = 100	112 8	112 7	112 7		112 6	114 9
28 commodities	August, 1939 = 100	293 4	293 8	294 1	294 6	293 5	324 4
Finance:							
Business loans	mil. of dol.	20,799	20,722	20,657	20,581	20,626	19,503
Failures, industrial and commercial	number	151	141	123	152	137	130

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Employment Expands Slightly

Bureau of Census data for August indicate a slight rise over July in employment. A substantial gain in non-farm work was based on added factory jobs. Agricultural employment was down considerably as farm activity entered the slack period between cultivation and harvesting. The decline in unemployment to 1.6 million was due in part to rehiring following the end of the steel strike and in part to the fact that seasonal workers began to drop out of the working force. Census data, in thousands of workers, are as follows:

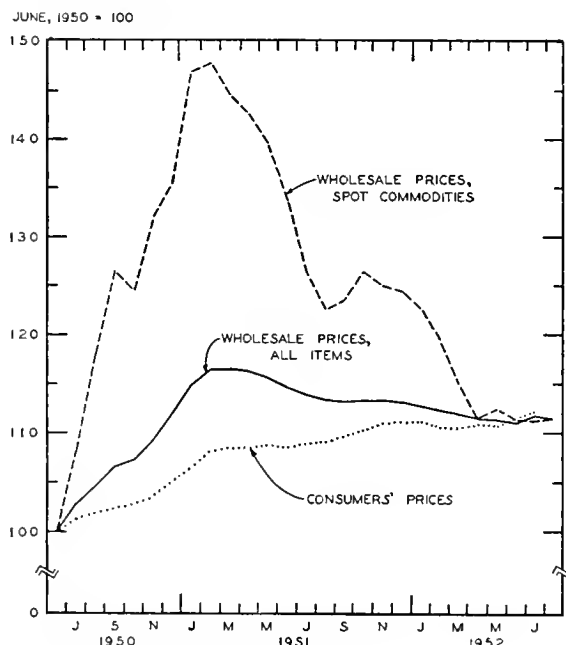
	August 1952	July 1952	August 1951
Civilian labor force	63,958	64,176	64,208
Employment	62,354	62,234	62,630
Agricultural	6,964	7,598	7,688
Nonagricultural	55,390	54,636	54,942
Unemployment	1,604	1,942	1,578

Prices Steady or Higher

There has been a substantial degree of stability in the price level in recent months, as shown by the accompanying chart. Following a sharp rise of nearly 50 percent from the June, 1950, level, the price index for sensitive commodities has settled at 110-115 percent of the pre-Korea figure. About three-fourths of the initial rise has been cancelled. The all-items wholesale price index rose 16 percent following the outbreak of war in Korea, but a gradual decline since March, 1951, has brought it down to a point 11 or 12 percent above the prewar level.

In contrast, there has been a slow, fairly continuous rise in consumers' prices. In the eight months between June, 1950, and February, 1951, when wholesale price indexes peaked, consumers' prices rose 8 percent. In the 17 months since February, 1951, the index has risen an additional 4 points to 112 percent of the base. Stable elements such as rents and service charges slowed the initial postwar rises but contributed to subsequent advances.

PRICE CHANGES SINCE JUNE, 1950



Source: Bureau of Labor Statistics.

National Product Growth Continues

Gross national product rose to an annual rate of \$343.2 billion in the second quarter — \$3.8 billion above the first quarter level. This is a continuation of the gradual increase that has characterized the economy over the past year. Most of the rise represented a larger physical volume of production. In June the steel work stoppage cut that industry's output to one-fifth of rated capacity, but basic metal-using industries avoided cut-backs until July by drawing on inventories. Hence, the quarterly statistics were not greatly affected.

GROSS NATIONAL PRODUCT OR EXPENDITURE

(seasonally adjusted, billions of dollars at annual rates)

	2nd Qtr. 1952	1st Qtr. 1952	2nd Qtr. 1951
Gross national product	343.2	339.4	329.3
Personal consumption	214.9	213.2	204.5
Durable goods	26.4	25.2	26.3
Nondurable goods	117.8	118.0	111.3
Services	70.8	70.0	66.9
Domestic investment	49.3	50.0	65.2
New construction	23.6	23.7	23.5
Producers' durable equipment	25.7	25.7	25.4
Changes in business inventories	1.0	6.0	16.3
Nonfarm inventories only	- 8.0	- 1.0	15.2
Foreign investment	9.0	1.9	- 2.0
Government purchases	78.0	74.4	59.8

INCOME AND SAVINGS

National income	n.a.	288.0	274.8
Personal income	264.4	263.0	251.9
Disposable personal income	231.5	230.5	223.2
Personal saving	16.5	17.3	18.7

Consumer buying rose \$1.7 billion. Automotive outlays accounted for the greatest part of the advance in their first increase since the 1950 post-Korean buying wave. Sales of other durables showed a further moderate decline in the second quarter. However, the quarter ended with sales of many consumer durables on the upgrade.

Government expenditures for goods and services advanced from \$74.5 billion in the first quarter of the year to \$78 billion in the second. This \$3.5 billion increase approximates that of the advance in total GNP. Most of the increase occurred in national security expenditures. Of this rise military construction and the accelerated flow of hard goods accounted for the greater part.

Gross private domestic investment fell slightly below the \$50 billion annual rate of the first quarter. The entire drop of \$16 billion from the \$65 billion mark of the second quarter of 1951 is the result of reduced accumulation of inventories by manufacturers and distributors.

New Capital Expenditures Data

The Department of Commerce's *Survey of Current Business* for August presented detailed industry breakdowns of capital outlays by nonmanufacturing concerns, comparable to those previously published for manufacturers. The new figures permit an appraisal of the non-manufacturers' contribution to the over-all level of capital goods demand.

At the end of World War II, established firms expanded or improved their facilities and an abnormally large number of new concerns were started. Together, they spent \$4.7 billion in 1945 for new plant and equipment. By 1948 their capital expenditures amounted to

almost \$13 billion. The prewar 1939 level was about \$3.5 billion. Nonmanufacturing outlays in 1945 represented just under 55 percent of total nonagricultural business capital expenditures; in 1948 it was 60 percent.

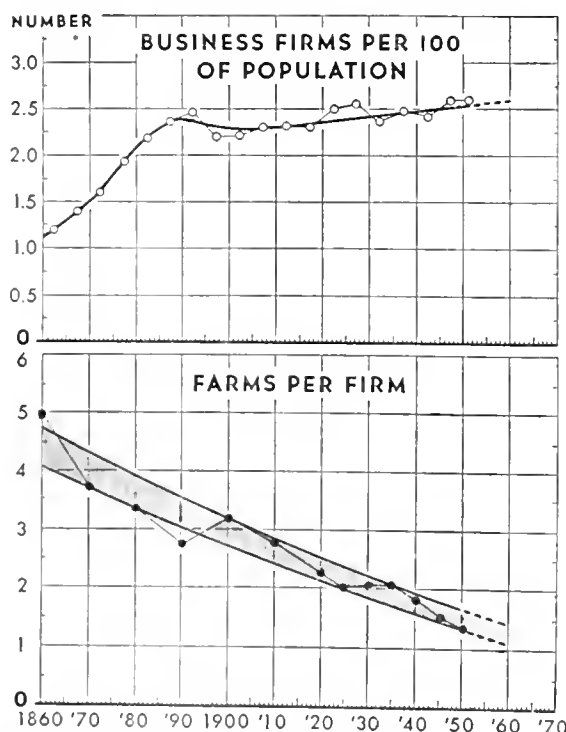
From 1948 to 1949 the nonmanufacturers' capital expenditures dropped about 5 percent. This was considerably less than the manufacturing group's drop for the same period.

With the onset of Korean hostilities nonmanufacturing capital outlays moved up once more. This advance was restricted in 1951 because the spending of industries not actively engaged in the mobilization effort went on the downgrade, but the declines in these industries were offset through the first quarter of this year by the continued capital expansion of mining, public utilities, the railroads, and communications companies.

Fewer Farms, More Businesses

The Department of Agriculture has provided another measure of the increased industrialization of the United States. In 1860, there were 2 million farms and 400,000 business firms, a ratio of 5 to 1. At the beginning of the 1950's there were 5.4 million farms and 4 million firms, a ratio of 1.35 to 1. In the next two decades there will probably be a further reduction in the number of farms, reflecting increases in the size of farms and in the output per farm. The business population, on the other hand, has been growing and can be expected to continue expanding with the opportunities in commerce and industry added by the general population increase. As illustrated by the accompanying chart, there has been a steady, gradual upward trend since 1920 in the number of business firms per 100 of population. A continuation of this trend together with the decline in the number of farms would result in a ratio of about 1 farm for each business firm by 1970.

TRENDS IN NUMBER OF BUSINESS FIRMS



Source: U. S. Department of Agriculture.

Limits on Interest Rate Policy

(Continued from page 2)

Federal Reserve did force the banks to borrow from it, and it is generally assumed that they regard this as a last resort, but the volume has been so limited as to lack importance. Loans and investments have continued to expand and there has been no letdown in private investment other than that resulting from the inventory reversal.

Controversy Over Higher Rates

Although few contend that the rise in interest rates has resulted in any serious harm up to this point, the situation reflects all the elements of a struggle for relative advantage. Every time an action on interest rates is taken, a transfer of income is also effected. If as a result of such action, prices dropped back, the value of money would rise and lenders would doubly benefit. The incentive is strong to push the Federal Reserve as far as possible in this direction.

Resistance to any such move is, however, sure to develop. The issue was clearly stated by Mr. Clark in the January report of the Council of Economic Advisers:

An increase of one-third in the basic commercial interest rate of larger banks, leading to general increases in other bank interest rates, was hailed as a valuable contribution to economic stability. All other businessmen are criticized when they exploit a situation by raising their prices by a much smaller percentage.

Whether an increase in interest rates has a significant effect on total spending and prices is a matter of controversy. The rate of return expected on most business ventures is so high that slightly higher interest charges are of small consequence. It is the restriction of credit as such, whether or not the interest rate is raised, that is generally assumed to place the restraint upon unnecessary spending. This leads, of course, to the retort that a restriction of credit cannot be accomplished without some increase in interest rates. Whatever the merits of this argument, it is clear that an increase in interest rates can be accomplished without a significant restriction of credit.

The primary opposition to such a development is bound by the nature of the situation to come from the government itself. The inflation derives not from economic developments, but from our foreign affairs. The special article in this issue portrays the difficulty clearly. The peak of military spending has not yet been reached; and with security programs expanding faster than revenues, the government is again in the position of borrowing to finance a deficit. In these circumstances, it is not too far-fetched to present the controversy over monetary policy as one between the Treasury, as guardian of the public purse, and the Federal Reserve, as focal point of the pressures from the financial community.

The question is, how far will the Federal Reserve go in letting interest rates rise, and how far can it go without losing its "independence"? That there are limits not very far off seems clear. Speeches have been made in favor of the Federal Reserve's position by members of Congress, but the actual votes taken so far have curtailed its powers.

The future course of international events will in all probability be determining. If the emergency lessens, there will be no necessity for tightening credit further. If it becomes more acute, anti-inflation measures will be in order, but not—as Mr. Clark pointed out—in the form of a monetary policy that permits one sector of the economy to make unrestricted gains while everything else is being controlled.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Defense Plant Location

The United States Department of Commerce has announced publication of a guidebook to help communities and manufacturers select sites for new defense-supporting plants which will afford relative security from enemy attack. Entitled *Industrial Dispersion Guidebook for Communities*, the new publication tells how national dispersion standards may be applied to any particular metropolitan area. The National Industrial Dispersion Program, announced in August, 1951, provides that new defense production facilities be located 10 or more miles from highly industrialized or densely populated sections or from major military installations. Proper location according to these criteria is necessary before new plants may receive Government defense production aid. The *Guidebook* gives detailed instructions on conducting the dispersion survey, which it describes as the "means of identifying potential target zones." It tells what data and maps are needed and where to get them and how to keep information current. Copies are available at 20 cents each from the field offices of the Department of Commerce.

Grinding Wheel

A new type of cup grinding wheel which retains its sharp cutting edge throughout its service life is now in production. The wheel has a hard shell of abrasive built around a core of rapid cutting resin-abrasive construction. This shell, which is three-sixteenths of an inch thick, resists "mushrooming" or rounding of the wheel's cutting edge, and wear occurs evenly across the entire surface of the wheel. It is particularly useful for grinding hard-to-reach corners and complicated shapes. Foundry operations, weld finishing, and machine shop work are some of the applications for the new wheel which is marketed under the trade name "U. S. Royalite Hard-Shell Cup Wheel" by the U. S. Rubber Company (Rockefeller Center, New York 20, N. Y.).

Modernizing Office Procedures

A recent bulletin of the Business Management Service of the University of Illinois, entitled *Modernizing Office Procedures*, states that management must develop programs designed to effect economies in office performance through modernization of operating methods and procedures in order to offset spiraling costs of office operation. Additional paper work requirements and a decline in individual productivity in many cases have not been offset by advances in office mechanization. A considerable portion of cost advances may also be attributed to the evolution and perpetuation of office systems, methods, and procedures which have failed to keep pace with the times. The bulletin tells how to plan a modernization program, how to conduct procedures studies, and how to utilize equipment and personnel to greatest advantage.

Population Stimulates Construction

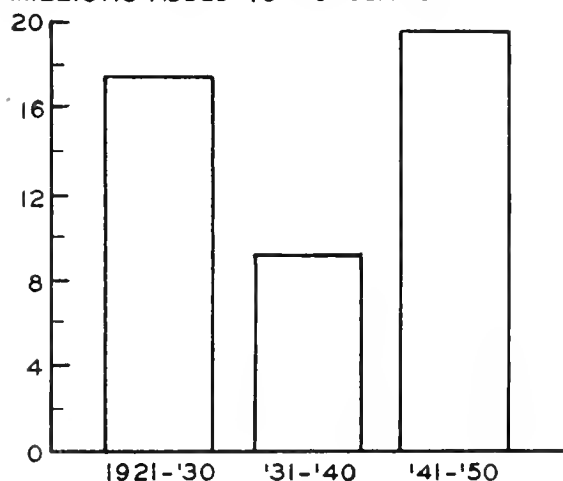
The Big News Is the Birth Rate is the title of a booklet recently published by the F. W. Dodge Corporation. It foresees no letup in construction demand as the nation's rising birth rate increases the need for productive capacity and shelter facilities. The United States

baby crop of 3.9 million in 1951 broke all records. It was a continuation of a trend which saw a record number of marriages in 1946 followed by a birth rate in 1947 almost as high as the 1951 figure. The year 1947 was the first since 1915 that the nation's birth rate was over 25 per thousand of population.

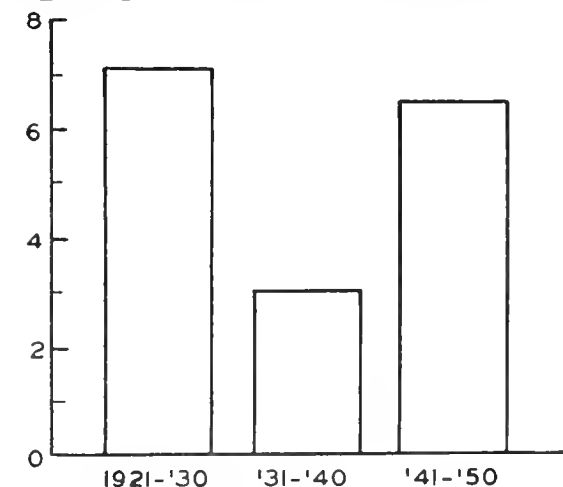
During each of the past five years the net gain in population has been more than 2.5 million. The connection between population and construction is illustrated by the chart which compares population net gains in the past three census decades with numbers of new nonfarm dwelling unit starts. During the 1930's the population gain was only half the total of the previous decade and there was a 58 percent decrease in the number of new dwelling units and a 38 percent decline in total construction volume. In contrast, the 1940-1950 decade showed a 116 percent increase over the depression years in number of new persons added to the population and it had a 115 percent increase in new nonfarm dwelling units.

POPULATION GROWTH AND HOUSING CONSTRUCTION

MILLIONS ADDED TO POPULATION



MILLIONS OF DWELLING UNITS STARTED



Source: F. W. Dodge Corporation.

PROSPECTS FOR THE U. N. DISARMAMENT COMMISSION

ROBERT W. FRASE

Editor's Note: The cold war is so important an influence in our lives today and is building such a vast potential of destruction for the future that any good review of the world armaments situation bears repetition and emphasis. For this reason we are featuring a special article that is a condensed version of one appearing in the May, 1952, issue of the *Atomic Scientists' News*. This article was so highly thought of by Senator Ralph Flanders (R., Vt.), that he brought it up on the floor of the Senate on July 2 in place of a speech he had been intending to make on the same subject.

The international control of atomic energy and the reduction and control of other armaments are now to be treated as integral parts of one general problem by the new Disarmament Commission of the United Nations, established by the General Assembly in January, 1952. Are the prospects for progress any better in the new Commission than they were in the two previous separate U. N. commissions on Atomic Energy and Conventional Armaments, which reached an impasse about 3 years ago and have been marking time since then?

Realistically considered, even the most optimistic possible answer would be that the new Commission has the advantage of more rational terms of reference, but this advantage may be more than counterbalanced by the present state of international suspicion and distrust. The debates in the last U. N. Assembly strongly suggest that the creation of the Disarmament Commission was more an incident in the propaganda battle than the reflection of a belief that negotiated disarmament was a promising way out of the present East-West conflict and arms race. This conflict has now become such an all-out affair—embracing political, economic and military activities in all quarters of the globe—that it seems unlikely that agreement can be reached to reduce or to sterilize the military aspect of the conflict, and thus in essence to agree to compete only in the political and economic spheres, unless it can be logically demonstrated that this may be a way out which serves the interests of both parties.

The one example in recent history of an international agreement on arms limitation, the Washington Treaty of 1922, offers no assurance of success in the present situation. All three major parties—the British, Americans, and Japanese—were then on relatively good terms; their interests were not yet in acute conflict in any part of the globe. The limitation of major naval vessels seemed to offer a way of perpetuating this state of affairs, and at the same time to save each of the parties a large amount of money.

The Present and Prospective Balance of Power

The current prospects of reaching an arms limitation agreement appear far less promising because the present balance of power is so complex that there is no relatively simple way of substituting an agreement for further competition in arms. However, analysis of the present and prospective power balance does tend to show that victory for either side is by no means assured, that the present competition in arms has no discernible "natural" stopping point and that a war might well lead to the exhaustion and impoverishment of all participants. Thus it would appear reasonable for both sides to explore seriously what might be worked out in the way of an arms limitation

agreement, even though this might be a lengthy process with no simple formula now in sight.

There is and has been since the end of World War II a certain balance of power as between Russia and her satellites and the West. It is a new kind of military balance, but it has shown a considerable durability in surviving crises like the Berlin dispute and the Korean war. In Europe, the most important and active area of conflict, this balance has consisted essentially of United States air-atomic power against the superior ground forces of the U. S. S. R. Since about two or three years after the close of World War II, the Red Army has been in a position to overrun all of continental Europe, and the United States has presumably had the power to destroy most of the major Russian cities and industrial centers by atomic bombing.

In the last 2 years this power balance has been changing and becoming more complicated, and it promises to become even more so. The West has been aware, especially since the first Soviet atomic test in the autumn of 1949, that its atomic advantage might become relatively less great—not only by the growth of the Soviet atomic stockpile, but by increased Russian defensive strength in interceptor jet aircraft, anti-aircraft artillery, and radar warning systems.

But if Russia could catch up in the atomic field, so could the West in the field of ground forces and supporting tactical air forces in Western Europe. Western Europe, through NATO, could build a ground defensive force capable of preventing the occupation of Europe by the Red Army. Thus the simple postwar balance of United States air-atomic power against the Red Army would be replaced by a dual balance: Western ground forces against Eastern ground forces and Western air-atomic power against Eastern air-atomic power.

The Russians have obviously not appreciated the prospect of this new dual balance of power. Presumably they do not care about balance and would prefer to have a preponderance of power on their side.

At any rate, the Soviets have been endeavoring to weaken the Western effort to achieve a new dual balance by a fairly complicated series of military and political measures. The obvious main points in their strategy appear to be:

1. To increase their ground forces to continue their superiority in this field.

2. To slow down the development of Western ground forces in Europe by a series of political measures, such as increasingly attractive offers of unification to keep Western Germany from going into the NATO coalition as an armed partner.

3. To sap the military and economic strength of the Western coalition by various political and military activities in other areas of the world, as for example in Indochina and Malaya. If continental Southeast Asia were lost to the West, the loss of the tin and rubber might have a most serious effect, both economically and militarily.

4. To build up Soviet defensive strength in the air as a shield against possible United States atomic bombing. Considerable success has already been achieved in the quantity production of the MIG jet fighter.

5. To increase Soviet atomic production. There are some reasons to be hopeful that restricted sources of

uranium and a limited industrial system strained by other requirements may have held down Soviet atomic bomb production. However, for Soviet purposes a much smaller supply of bombs than the United States possesses might prove adequate (1) as a blackmail threat to destroy the large cities of Western Europe, and (2) as a means of preventing the landing of overseas troops in Europe by bombing of ports and amphibious landing operations.

The Case for Arms Limitation

This analysis of the present and prospective balance of power is sketchy and could be elaborated in much greater detail, but perhaps enough has been said to indicate that this is no simple and easy equation from which it is possible to predict with confidence that the West will surely succeed in its efforts and the Soviets will fail in theirs. If anything the problem promises to become more complex as Germany and Japan regain control of their own destinies and have an opportunity to maneuver to promote their own interests.

Beyond this, and of major importance, it is difficult to see where a stopping point can be reached in competitive armament. There is a unique feature in atomic armament which will tend to perpetuate an arms race indefinitely: unlike other weapons, atomic bombs do not become obsolete or deteriorate. Improved bomb mechanisms may have to be substituted for older models from time to time, but the basic nuclear explosive will last for decades and thus the stockpiles will continue to grow indefinitely. Various published estimates placed the United States production of atomic bombs 2 years ago at 50 to 100 a year. With the apparent improvements in efficiency in the utilization of U-235 and plutonium, and the expansion of production facilities which have since been announced, that production rate may well be tripled or quadrupled by the middle of this decade. The Russians are presumably making every effort to match this production. When it is considered that something of the order of 50 atomic bombs delivered on target would equal the destruction of German cities caused by bombing with conventional explosives in World War II (housing for 7,500,000 persons destroyed) a rough measure is provided of the magnitude of the potential destruction which is being added to year by year in atomic stockpiles.

The Task of the New Commission

There seems to be no conceivable way other than by international agreement by which the continued accumulation of these bomb stockpiles can be halted and reversed. Somewhat paradoxically, however, it seems probable that the new Commission will make more progress if it concentrates its initial efforts on the development of an arms reduction and control scheme for non-atomic weapons. Since neither side has put forth any substantive plan for conventional armaments, it may be possible to get ahead here without haggling over hardened points of dispute such as exist in the atomic energy field.

This task in itself will be neither easy nor short. The three basic questions to be explored are:

1. What armaments are to be reduced and controlled? Should an attempt be made to reduce and control everything, setting up a quota for each country in every category from pistols to heavy bombers? Or should reduction and control be limited to major weapons like tanks, heavy artillery, and bombing aircraft?

2. What arms quotas are to be permitted to the various signatory countries and on what basis are these

quotas to be set? The United States delegation at the last Assembly session in Paris suggested using population and national income as a base for setting national quotas of armaments and armed forces. For example, armies might be limited to 1 percent of population and armaments expenditure to, say, 5 percent of national income.

3. Once agreement is reached on these two major substantive questions of what arms are to be limited and what quotas are to be permitted each participating country, it would then be in order to proceed to the questions of implementation. Here the two major points are the timing for the placing of agreed quotas into effect, and the inspection or supervision required to assure that the arms quotas were being complied with. Thus far the discussion and controversy in the U. N.—both on conventional armaments and on atomic energy—has revolved almost exclusively around these implementing questions.

If after thoroughly exploring the problem of limiting and controlling conventional armaments the new Commission turns again to atomic energy, the atomic control problem will almost certainly appear in quite a different light than it did when the old Atomic Energy Commission ceased active work in 1948. If the Russians have agreed to an inspection system which appears adequate to enforce limitations on other armaments, much the same system would probably serve the purpose of policing an atomic control system as well.

It would also then be necessary for the Disarmament Commission to take up all the unfinished business of the old AEC, which is far more complicated than the U. N. Majority Plan seems to indicate. For example, what quotas of atomic production are to be permitted in each country to establish a "strategic balance" in the geographical distribution of atomic production facilities? What is to be done with the present atomic stockpiles and the atomic production facilities, like the United States plants at Hanford and Oak Ridge, which would probably be worthless or nearly so for the economic generation of electric power? Finally, how is it possible to provide reasonable assurance that no significant amount of fissionable material has been secreted away for future aggressive use? These are questions which grow more serious as production increases and stockpiles accumulate. In brief, the U. N. Majority Plan—which is less a plan than a partly completed outline—would require some months of work to complete, to bring up to date, and to fit into a larger program of limiting other armaments and armed forces as well.

Summary

The circumstances surrounding the creation of the new Disarmament Commission were not the most auspicious, but it is some gain that it exists.

The present and prospective high-armament balance of power is building up an enormous destructive potential, which could be set off by an accident, a miscalculation, the pressure of internal politics, a minor ally, or a partly irrational man in power like Hitler. Progress is most likely to be made in the Commission by starting with an attempt to develop a modern plan for conventional armaments. The half finished atomic-control problem could then be taken up in a new perspective in which many of the old points of dispute might prove to be irrelevant.

The alternative on the most optimistic assumption is some years or decades of a garrison economy for many countries—on the most pessimistic, an inferno which has no historical counterpart.

LOCAL ILLINOIS DEVELOPMENTS

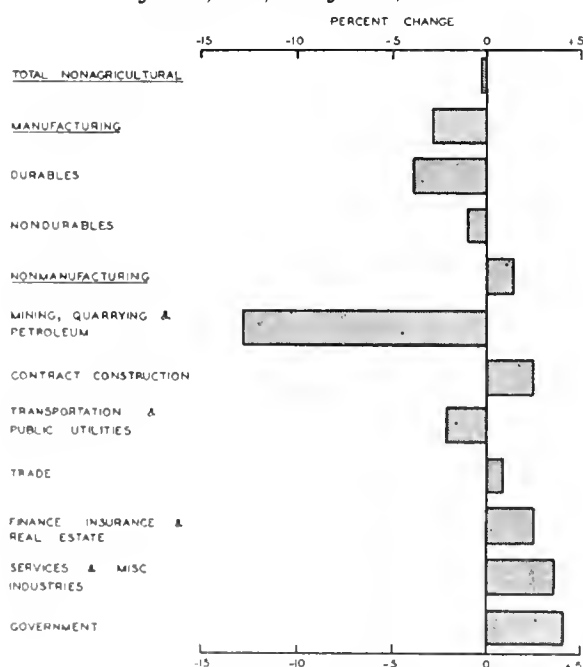
Several of the Illinois business indexes (see page 4) showed a summer slump. Coal production for July was off nearly one-fifth, manufacturing employment was down 1.2 percent, and department store sales in Chicago declined 2.9 percent from the previous month's level. These declines were offset by expanded activity in other lines. Electric power production rose 2.2 percent over June, and construction contract awards were 22.0 percent higher in July than they were in June. Steel production was slightly higher than in June, but remained low because of the strike.

Employment Off Slightly

Total nonagricultural employment declined fractionally from May to a level of 3,293,000 in June. Seasonal gains were counterbalanced by the steel strike. All groups except manufacturing and government showed gains, with an advance of 4.4 percent in construction employment leading the way. In the manufacturing industries decreases in durables work more than offset rises in non-durables employment; as a result, the total number of manufacturing workers dropped 1.2 percent to the lowest level since January, 1951. Employment in primary metals production was off 26.7 percent because of the steel walkout.

Compared with June, 1951, total nonfarm employment for June, 1952, was off 0.2 percent, as shown by the accompanying chart. Decreases in manufacturing employment were only partly balanced by additions of workers in nonmanufacturing jobs. Within the manufacturing classification, large declines in the number of workers engaged in the production of such durables as primary metals and stone, clay, and glass items outweighed expanded employment in the manufacture of electrical machinery and equipment, transportation equipment, and instruments.

EMPLOYMENT CHANGES IN ILLINOIS,
JUNE, 1951, TO JUNE, 1952



Source: Illinois Department of Labor.

The largest decline among the chief subgroups occurred in mining, quarrying, and petroleum production (off 12.8 percent). Employment gains in contract construction; trade; finance, insurance, and real estate; services and miscellaneous industries; and government were substantial and exceeded the losses in mining and transportation and utilities, so that total nonmanufacturing, nonfarm employment rose 1.4 percent during the year.

Farm Prices Rise

Prices received by Illinois farmers were up 2.0 percent on July 15 from the level of the previous month. A decrease of 1.1 percent in crop prices was more than balanced by a 3.3 percent advance in the prices obtained for livestock and livestock products. The gain in the latter category chiefly reflected higher prices for dairy products. The index of prices received stood at 299 (1910-14=100) at mid-July; with prices paid unchanged at 286, parity rose from 102 to 105. On July 15, 1951, the parity ratio was 109.

Contract Awards Up Sharply

The value of construction contracts awarded throughout the State rose sharply from June to July, according to data released by the F. W. Dodge Corporation. The July total of \$108.8 million was 22.0 percent over June. The increase was more than accounted for by the 83.6 percent advance in the value of nonresidential building awards to \$48.8 million; commercial awards more than doubled, and contracts for commercial building more than tripled in value. Residential construction contracts rose only 0.3 percent. Awards for public works and utilities were off by 13.1 percent.

In comparison with July, 1951, awards were much higher in value. All classifications showed substantial gains, with nonresidential building up 135.3 percent. The over-all advance was 57.9 percent. For the first seven months of 1952, contracts let totaled \$634.4 million, more than 14 percent above the valuation level for the corresponding period of 1951.

Labor Difficulties

Illinois had its share of the nation's labor troubles in August. About 1,600 packing house workers walked off their jobs at an Armour plant at National Stockyards to back up contract demands, but the walkout was a short one. In several Illinois cities, International Harvester had a variety of problems with two different unions. Contract demands and "speed-up" grievances were involved in most cases. Part of the difficulties arose from union protests against a prospective move of a twine mill from Chicago to New Orleans. Several hundred workers were also off the job at Rockford in a contract dispute with Borg-Warner, makers of auto and aircraft parts, appliances, and farm implements.

Crop Report

July's hot, dry weather in central and southern Illinois cut crop prospects slightly. The most severe damage occurred in the river counties of southern Illinois. The August 1 forecast indicated a decline of one bushel per acre for corn and half a bushel per acre for wheat. The outlook for both crops remains above average, however. Soybeans were also in fairly good condition on that date.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

July, 1952

		Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁴ (000)
ILLINOIS							
ILLINOIS		\$31,462	804,147 ^a	\$507,454 ^a		\$11,672 ^a	\$10,650 ^a
Percentage Change from	June, 1952	-70 5	-0 4	-3 2	-18 9	-0 4	-3 3
	July, 1951	+92 6	-0 2	-0 0	-1 3	+12 1	+8 6
NORTHERN ILLINOIS							
Chicago							
Chicago		\$21,836	620,996	\$369,480		\$10,671	\$9,319
Percentage Change from	June, 1952	-90 5	-1 2	-2 4	-10 2	-0 0	-3 1
	July, 1951	-90 5	-1 1	-0 9	-2 0	+12 6	+16 6
Aurora							
Aurora		\$ 854	n.a.	\$7,189		\$ 43	\$ 76
Percentage Change from	June, 1952	+208 3		-2 8	-22 3	-9 9	-2 4
	July, 1951	+74 6		-0 6	-4 3	+12 2	+1 0
Elgin							
Elgin		\$ 282	n.a.	\$5,147		\$ 27	\$ 65
Percentage Change from	June, 1952	-3 3		-3 6	n.a.	-13 2	-17 4
	July, 1951	+17 0		+0 0		-6 7	+38 4
Joliet							
Joliet		\$2,306	n.a.	\$10,393		\$ 51	\$ 55
Percentage Change from	June, 1952	-625 2		-5 5	-16 4	-7 6	-12 5
	July, 1951	+533 5		-9 1	-0 4	+11 9	+10 5
Kankakee							
Kankakee		\$ 335	n.a.	\$5,263		n.a.	\$ 29
Percentage Change from	June, 1952	-168 0		+0 2	-23 2		-17 5
	July, 1951	+135 9		-16 0	-3 9		+2 9
Rock Island-Moline							
Rock Island-Moline		\$1,364	15,653	\$9,754		\$ 35	\$ 129
Percentage Change from	June, 1952	-11 9	-10 8	-6 4	n.a.	-0 3	-2 1
	July, 1951	-59 5	-5 3	+1 7		-4 9	-15 9
Rockford							
Rockford		\$1,633	23,366	\$14,926		\$ 128	\$ 132
Percentage Change from	June, 1952	-207 5	-11 9	-8 8	-23 2	-6 1	-14 6
	July, 1951	-129 0	+6 9	-5 9	-2 1	+6 1	-2 4
CENTRAL ILLINOIS							
Bloomington							
Bloomington		\$ 94	5,673	\$5,486		\$ 51	\$ 89
Percentage Change from	June, 1952	-21 7	-1 3	-3 6	n.a.	-0 7	-21 7
	July, 1951	-61 5	-8 4	-7 1		-5 5	-31 0
Champaign-Urbana							
Champaign-Urbana		\$ 236	7,526	\$7,587		\$ 53	\$ 63
Percentage Change from	June, 1952	+4 0	-0 1	-0 8	n.a.	-3 4	-11 0
	July, 1951	-30 4	+8 0	-6 6		-9 4	-19 3
Danville							
Danville		\$ 205	7,628	\$6,131		\$ 44	\$ 45
Percentage Change from	June, 1952	+10,150 0	-9 3	+1 7	-20 6	-7 6	-6 1
	July, 1951	+16 5	-11 2	+4 3	-4 1	-15 6	-1 7
Decatur							
Decatur		\$ 302	20,272	\$9,438		\$ 84	\$ 91
Percentage Change from	June, 1952	+112 7	+4 2	-3 5	-11 6	-7 8	-5 8
	July, 1951	-22 8	+7 4	-5 2	+2 2	-19 3	+16 3
Galesburg							
Galesburg		\$ 146	5,809	\$3,954		n.a.	\$ 30
Percentage Change from	June, 1952	+4 3	-2 0	-4 8	n.a.		+5 4
	July, 1951	+13 2	-9 2	-1 4			-5 9
Peoria							
Peoria		\$ 515	36,557 ^c	\$16,988		\$ 199	\$ 176
Percentage Change from	June, 1952	-8 4	-18 3	-6 2	-20 1	-8 2	-7 7
	July, 1951	-35 9	-14 2	-0 6	-4 0	-0 3	-3 8
Quincy							
Quincy		\$ 213	6,240	\$4,699		\$ 34	\$ 63
Percentage Change from	June, 1952	-33 2	-8 9	-6 8	-11 0	-3 1	-14 1
	July, 1951	-0 5	-5 5	+1 1	+3 0	-9 3	-19 2
Springfield							
Springfield		\$ 662	24,986 ^c	\$12,834		\$ 89	\$ 197
Percentage Change from	June, 1952	+180 5	-1 2	-7 7	n.a.	-3 7	-11 5
	July, 1951	+147 9	-13 7	-0 8		+11 7	+17 9
SOUTHERN ILLINOIS							
East St. Louis							
East St. Louis		\$ 242	12,312	\$9,176		\$ 130	\$ 46
Percentage Change from	June, 1952	-28 0	-0 8	-7 1	n.a.	-0 6	-0 0
	July, 1951	-25 8	-13 7	-4 0		-5 1	+12 6
Alton							
Alton		\$ 158	11,725	\$4,824		\$ 33	\$ 24
Percentage Change from	June, 1952	+26 4	-6 3	-3 6	n.a.	-0 9	-4 8
	July, 1951	-25 8	-11 1	-9 2		+15 8	-21 9
Belleville							
Belleville		\$ 79	5,404	\$4,184		n.a.	\$ 33
Percentage Change from	June, 1952	-1 3	-22 4	-8 9	n.a.		+1 2
	July, 1951	-20 2	-26 6	-5 1			+2 4

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for June, 1952, the most recent available. Comparisons relate to May, 1952. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Local post office reports.

^a Total for cities listed.

^b Moline only.

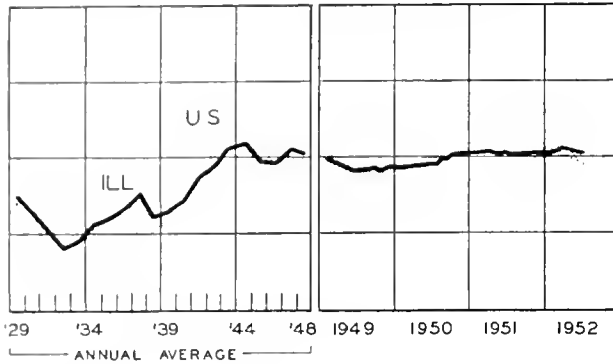
^c Includes immediately surrounding territory.

n.a. Not available.

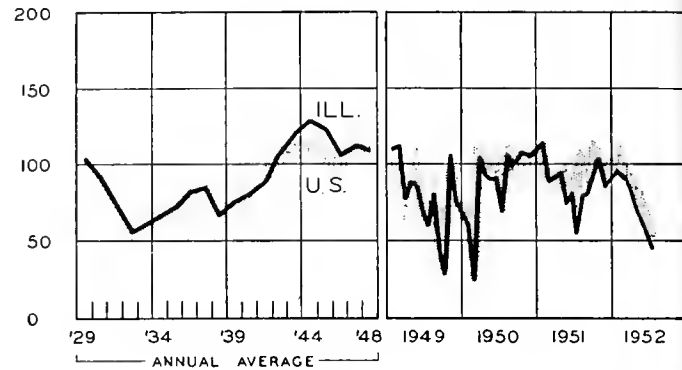
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

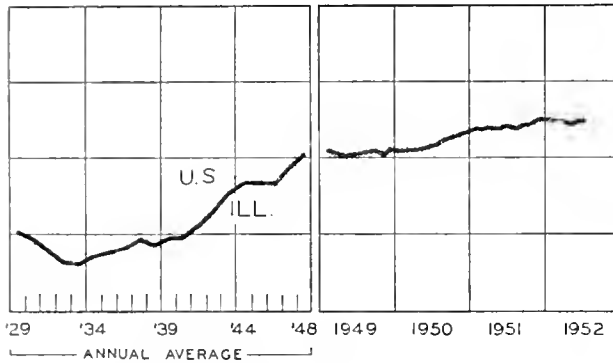
EMPLOYMENT - MANUFACTURING



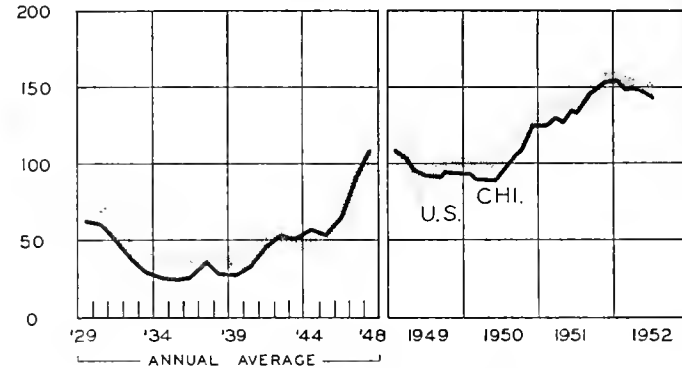
COAL PRODUCTION



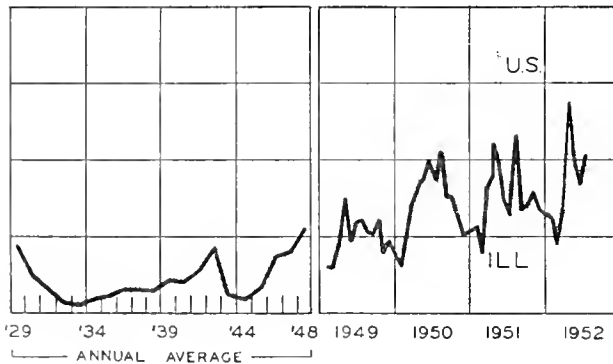
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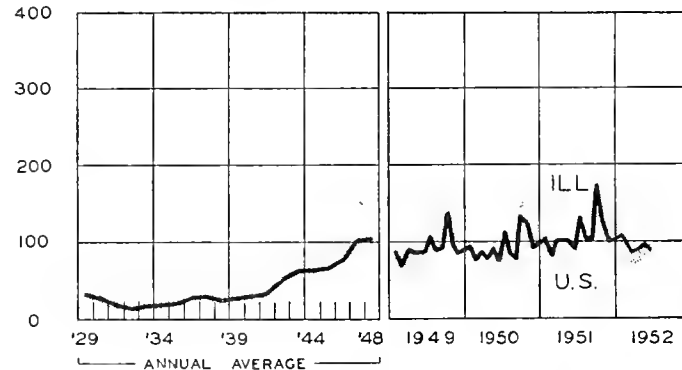
BUSINESS LOANS



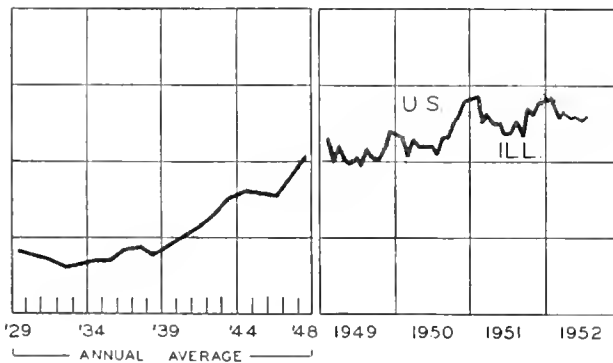
CONSTRUCTION CONTRACTS AWARDED



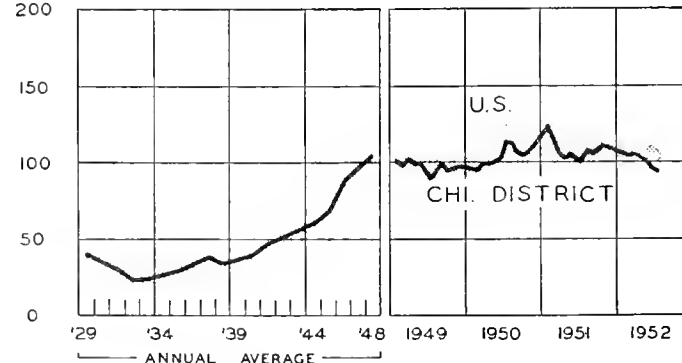
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



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HIGHLIGHTS OF BUSINESS IN SEPTEMBER

The nation's factories and mines hummed merrily during September. Industrial production for the month was estimated to have equaled the postwar high of 223 percent of the 1935-39 average established in April, 1951. This represented an advance of nearly 4 percent over August.

Indicative of the rapid recovery of industrial activity from the summer's steel strike is the rise in steel production from 92 percent of capacity at the end of August to 104 percent of capacity at the end of September—the latter a record in itself. Output of machinery and transportation equipment increased substantially, as did passenger car assemblies (445,000 units, the largest since June of last year), household appliances, petroleum refining, and minerals output. Under these circumstances, it was not surprising that unemployment in September dropped to a postwar low of 1.4 million; only 2 out of every 100 people wanting work were unable to find jobs.

Divergent Price Trends

Wholesale prices declined slightly during September. The comprehensive index of wholesale prices was down 0.9 percent by the end of September to 111.0 percent of the 1947-49 average. Lower prices of farm products, mainly livestock, accounted for much of the decline.

The consumer price index was up 0.2 percent in the month ended August 15 to 191.1 percent of the 1935-39 average. Fractional increases were reported for all major categories except apparel and housefurnishings.

The farmers' price position took a turn for the worse in September. The index of prices received by farmers dropped 7 points, or 2 percent, during the month, mainly because of lower prices for meat animals, truck crops, and potatoes. The index of prices paid by farmers also dropped but not as much, only 1 percent. As a result, the parity ratio, which is the ratio of prices received to prices paid, declined from 103 to 101.

Construction Activity at Peak

Expenditures on new construction in the third quarter of this year were higher than in any previous quarter in the nation's history. The \$9.3 billion spent in this quarter compares with \$8.7 billion of construction expenditures in the corresponding quarter of last year. As against last year, private home building and public utilities construc-

tion registered gains of 9 percent, whereas private non-residential construction declined by the same percentage.

New construction activity in September alone amounted to \$3.1 billion, the third straight month to exceed the \$3 billion mark. Public construction, which has been climbing steadily, amounted to nearly 35 percent of this total.

Capital Expenditures Near Record High

If American business carries out its plans, a record sum of \$14.3 billion will be spent on capital outlays during the second half of this year. The latest government survey of anticipated capital expenditures of nonfarm businesses, conducted in August, reveals little expectation of extensive delays in expansion programs because of this summer's steel strike.

Most industries expect to maintain their capital outlays in the third quarter at the same seasonally-adjusted rate as in the second quarter and to increase expenditures somewhat in the last quarter of the year. The main industries anticipating increased expenditures in the fourth quarter are manufacturing, electric utilities, gas utilities, and mining. Manufacturers, in particular, anticipate considerably larger increases than were contemplated earlier in the year.

If all of these capital expenditure plans for the second half of the year are realized, total outlays for the year should hit a record \$27.5 billion, 4 percent above the 1951 figure.

Personal Income Rises

The personal income of the American people in the first eight months of 1952 amounted to \$264.2 billion at an annual rate, 5 percent above the income received during the first eight months of 1951. Personal income includes wages and salaries, net earnings from proprietorships and partnerships, dividends and interest, and all other forms of individual income.

Personal income in August was even larger, \$267.1 billion at an annual rate. Higher wages and salaries were mainly responsible for the increase, as the steel and steel-using industries attempted to make up for production lost during the steel strike and as activity in the textile and apparel industries increased. There seems little doubt that this rise in personal income will carry over into 1953.

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Tax Reductions Unlikely

Since the period of deflation fears last spring, when Congress refused to act on President Truman's request for higher taxes, thoughts have turned increasingly toward tax reductions. The taxpayer looks hungrily toward the day when his earnings will be less heavily encumbered, and he is encouraged in the idea that tax changes will favor him even if no over-all reduction is possible. For the next year or two, however, all this appears to be little more than wishful thinking.

Why Taxes Will Stay High

Given the war program, which is now virtually self-determining through 1953, the pressure for lower taxes will be more or less counterbalanced by the desire to stabilize the economy. This will probably be true no matter who wins the election. The Democrats promise nothing in the way of tax reduction; the Republicans hold out greater hope, but are also the stronger advocates of a balanced budget.

At the moment the deficit continues to grow. In fiscal 1952, with receipts of \$62 billion and expenditures of \$66 billion, it amounted to \$4 billion. In the first three months of this fiscal year, from July through September, the deficit was double that of the same period last year. For the fiscal year as a whole, it is estimated that receipts will total \$69 billion and expenditures \$79 billion, leaving a deficit of \$10 billion. In short, the need for revenues is increasing rather than decreasing.

Another reason for keeping taxes high is that tax increases have been a major weapon in the fight against inflation. On a cash basis, collections from the public increased from \$41 billion in fiscal 1950 to \$68 billion in fiscal 1952—including payments into social security and other trust funds, which are not counted as revenues in figuring the deficit. Total receipts are estimated to increase almost 10 percent more in the current fiscal year. These large withdrawals necessarily restrict private spending. Almost one-third of the increase in personal income during the last two years was cut off by taxes. Many families have found their incomes pinched by the higher taxes as well as by rising prices; and buying has been reduced—with the aid of increased saving and inventory liquidation—to the extent that depressed conditions have prevailed in some consumer goods industries.

Despite these important deflationary elements, the level of economic activity has been more than sustained by the military program and by increased investment in new plant and equipment. With the upward movement again getting under way, the case for tax reductions is being weakened still further. There is no need to support the economy. Prices are again firming and corporate profits are showing corresponding improvement. Rising incomes ease the tax burden on individuals and combine with the rising deficit to reinforce the will of legislators to tax.

No Agreement on Tax Changes

With the general situation presenting so strong a case against tax cuts, any reductions would be very unlikely indeed except for one fact: When the last increases were enacted, Congress specified dates at which they would expire, so that action must now be taken if they are to be continued in effect.

Unless extended, the excess profits tax comes off next June 30; this amounts to as much as 15 percent of earnings for companies in the highest bracket. The most recent increase in the individual income tax is scheduled for removal at the end of 1953; it comes to roughly 10 percent for most taxpayers. And the latest 5 percent added to the normal tax on corporate profits runs only through March, 1954. Together, these taxes are expected to provide about \$7 billion in fiscal 1953. This is an amount that the government could neither afford to sacrifice nor permit to inflate the private spending stream.

One issue certain to be fought hard next spring is that of the excess profits tax. Not only is it now scheduled to terminate most quickly, but it is also most strongly opposed. It is frequently attacked as unsound in theory and wasteful in practice—destroying incentives and encouraging inefficiency. Recently Secretary of the Treasury Snyder spoke of the excess profits tax as one that is very difficult to administer and almost impossible to administer fairly. It is shot full of exemptions and special privileges—to the advantage of the airlines, railroads, utilities, banks, mining, and timber industries.

Needless to say, these are all points of controversy and are not considered decisive by supporters of the tax. In total, however, they carry enough weight so that the dropping of the excess profits tax holds the highest degree of probability among the various proposed changes.

On the other hand, most Washington observers feel it would not be politically feasible to cut corporate taxes in this way while leaving other taxes high, and that other corporate tax rates would therefore have to be raised to compensate for removal of the excess profits tax. But if this is done, the argument against the excess profits tax is greatly weakened; for it will mean cutting still further the profits of those corporations that have not been able to increase their earnings, in order to benefit further those who have increased them sufficiently to get into the excess profits tax bracket. It is hardly a move that would appeal to those who are not already subject to this tax.

As an alternative to stepping up other corporate rates, the imposition of a national sales tax is sometimes advocated. The case for such a tax is weak, as was pointed out here last April. The real obstacle, however, lies in the fact that opposition to such a tax has always been strong. This will be true, even if it is proposed under another name, say, a general manufacturers' excise tax. The

(Continued on page 6)

THE FARMLANDS OF ILLINOIS

Although Illinois ranks only twenty-third among the states in land area, she has a larger proportion of arable land than any other state, and the fertility of her farmland compares favorably with the best in the world. These factors combine to make her one of the leading agricultural states in the nation. In value of all farm products sold in 1945, Illinois ranked fourth following California, Iowa, and Texas.

With a total land area of more than 35.8 million acres, Illinois has 88 percent, or 31.6 million acres, in farms. Of this, approximately 23.5 million acres are in cropland, 7.7 million acres in pastures, and 2.4 million acres in woodland. This acreage is divided among 204,000 farms, which average 155 acres each.

More than one-third of the cropland is devoted to corn, about one-seventh to soybeans, and slightly less than one-seventh to oats, with lesser acreages used for wheat, potatoes, and other vegetables.

Products of Illinois Farms

In 1949, the Illinois corn harvest was the second largest in the nation and accounted for more than one-seventh of the total crop harvested in the United States. In the production of soybeans and hybrid seed corn, Illinois leads the nation.

The leading livestock enterprise is hog production. The State's 1948 pig crop, the fourth largest on record, was second only to that of Iowa.

In addition to these products, Illinois ranks high in the production of many other agricultural products such as oats, tame hay, wheat, vegetables, and cattle.

Farming Areas

Illinois is divided into three fairly distinct type-of-farming areas. The first of these is the corn belt. This region begins in the east-central portion and runs in a slightly northwesterly direction across the State. The eastern part of the belt is devoted mainly to cash grain production. Substantial quantities of soybeans and oats are also produced in this area.

In the central part of the corn belt, also a cash grain producing area, wheat and soybeans are important secondary crops. In the western sector, cash grain farming assumes less importance. Here, grain is produced primarily as feed for the large quantities of livestock that are bred in the area.

In the northeastern corner of Illinois, and centering around the Chicago metropolitan district, is a good-sized dairy and truck farming belt. This region includes the territory northeast of a line drawn from the northwest corner of Winnebago County to the northeast corner of Kankakee County.

The southern third of the State is a mixed farming area. The eastern part of this region produces grain and livestock, whereas the central portion is devoted to general and part-time farming. The western part of the

southern belt produces dairy and poultry products and wheat. The extreme southern section of the State is devoted in the main to production of fruits and vegetables. This area has given Illinois a widespread reputation for the quality of its fruit products.

Good Soil and Climate Mean High Land Values

The standing of the State in agriculture can be easily understood when the high quality of much of the soil is taken into consideration together with climate and rainfall. The northern sections of Illinois, along the Wisconsin border, have an average of 160 consecutive days a year without a killing frost. This increases to 210 days in the southernmost regions. The average warm season precipitation, between April and September, varies throughout the state from 20 to 24 inches. Under these conditions, almost any commercial crop grown anywhere in the United States can be produced successfully in Illinois.

The value of Illinois farmland reflects this favorable situation. In total value, Illinois ranks fourth, after the larger states of Texas, California, and Iowa. In average value per acre, Illinois ranks fifth after the smaller eastern states of New Jersey, Connecticut, Rhode Island, and Massachusetts. However, the higher value of farm real estate in those states may well be more a reflection of their proximity to the densely populated sections of the country than of their productivity.

The dollar and cents value of Illinois farmland hit a new high in 1952 at an estimated \$222.22 per acre. The previous high was \$187.59 per acre, reached in the agricultural boom immediately following World War I.

There are, of course, wide variations in land values within Illinois itself. In general the higher-priced land is found in the northern two-thirds of the State. The most valuable farmland, aside from Cook and DuPage counties, is found in the east-central section. Piatt County has the highest land value, the average being \$336.65 per acre, followed by Champaign County with an average of \$325.00 per acre. Alexander County, at the extreme southern tip of Illinois, has the lowest land prices in the State, with an average of \$60.94 per acre.

Illinois Farmers Look to the Future

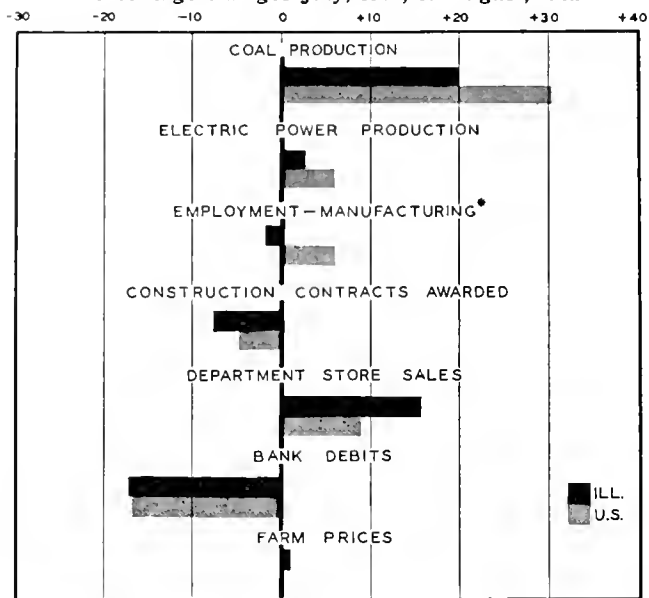
Since the first recorded use of limestone for soil improvement occurred in 1902 at the Illinois Agricultural Experiment Station, Illinois has remained a leader in soil conservation. Today nearly 88 percent of the total land area of Illinois is embraced within soil conservation districts, the aim of which is to maintain the fertility of the soil. To implement this policy, 67 soil-testing laboratories have been set up in the 102 counties to aid farmers in finding chemical and mineral deficiencies in their soil and to recommend measures which may be taken to eliminate them. The continued operation of an active conservation plan should assure Illinois that her farmlands will continue to be highly productive for some time to come.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes July, 1952, to August, 1952



* June, 1952, to July, 1952.

ILLINOIS BUSINESS INDEXES

Item	August 1952 (1947-49 = 100)	Percentage Change from	
		July 1952	August 1951
Electric power ¹	134.1	+ 2.4	+ 6.5
Coal production ²	54.1	+20.0	-32.6
Employment-manufacturing ³	100.2	- 1.9 ^a	- 2.9 ^b
Payrolls—manufacturing.....	n.a.	.....	.....
Dept. store sales in Chicago ⁴	109.2 ^c	+15.8	+ 2.4
Consumer prices in Chicago ⁵	115.6 ^d	+ 0.4	+ 3.0
Construction contracts awarded ⁶	189.4	- 7.5	-18.5
Bank debits ⁷	111.3	-16.6	- 6.0
Farm prices ⁸	117.6	+ 1.0	- 1.6
Life insurance sales (ordinary) ⁹	119.5	- 5.7	+ 5.9
Petroleum production ¹⁰	94.9	- 1.7	- 0.2

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a June, 1952, to July, 1952. ^b July, 1951, to July, 1952. ^c Seasonally adjusted. ^d On 1935-39 base, the index was 196.7. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	August 1952	Percentage Change from	
		July 1952	August 1951
	Annual rate in billion \$		
Personal income ¹	267.1 ^a	+ 1.1	+ 4.1
Manufacturing ¹			
Sales.....	265.2 ^a	+ 1.8	+ 1.8
Inventories.....	42.7 ^{a, b}	+ 1.4	+ 5.2
New construction activity ¹			
Private residential.....	12.6	+ 2.9	+10.1
Private nonresidential.....	11.9	+ 1.7	- 2.6
Total public.....	13.3	+ 2.6	+14.3
Foreign trade ¹			
Merchandise exports.....	12.8	+ 5.4	-15.7
Merchandise imports.....	9.8	- 2.4	- 7.2
Excess of exports.....	3.0	+41.6	-34.8
Consumer credit outstanding ²			
Total credit.....	21.4 ^b	+ 0.8	+11.1
Installment credit.....	14.9 ^b	+ 1.1	+14.3
Business loans ²	20.9 ^b	+ 1.6	+ 7.3
Cash farm income ³	34.5	+ 6.6	- 3.7
	Indexes (1947-49 =100)		
Industrial production ²			
Combined index.....	116 ^a	+11.4	- 0.9
Durable manufactures.....	124 ^a	+16.0	+ 0.4
Nondurable manufactures.....	111 ^a	+ 6.1	- 1.6
Minerals.....	109 ^a	+12.0	- 3.6
Manufacturing employment ⁴			
Production workers.....	103 ^a	+ 3.1	- 2.0
Factory worker earnings ⁴			
Average hours worked.....	101	+ 0.8	- 0.2
Average hourly earnings.....	125	+ 0.8	+ 4.2
Average weekly earnings.....	126	+ 1.6	+ 3.9
Construction contracts awarded ⁵	188	- 4.8	+13.9
Department store sales ²	114 ^a	+ 8.6	+ 4.6
Consumers' price index ⁴	114 ^c	+ 0.2	+ 3.0
Wholesale prices ⁴			
All commodities.....	112	+ 0.3	- 1.4
Farm products.....	110	- 0.3	- 0.5
Foods.....	111	+ 0.5	- 0.6
Other.....	113	+ 0.4	- 1.7
Farm prices ³			
Received by farmers.....	109	0.0	+ 1.0
Paid by farmers.....	115	+ 0.3	+ 1.8
Parity ratio.....	103 ^d	0.0	- 1.0

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ^a Seasonally adjusted. ^b As of end of month. ^c On 1935-39 base, 191.1. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1952					1951
	Sept. 20	Sept. 13	Sept. 6	Aug. 30	Aug. 23	Sept. 22
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,930	1,975	1,825	372	1,848	1,833
Electric power by utilities.....mil. of kw-hr.....	7,725	7,654	7,324	7,646	7,718	7,014
Motor vehicles (Wards).....number in thous.....	138.4	127.7	103.4	114.8	101.6	128.5
Petroleum (daily avg.).....thous. bbl.....	6,439	6,386	6,367	6,210	6,209	6,218
Steel.....1935-39 = 100.....	237.6	234.5	230.1	231.7	225.9	226.6
Freight carloadings.....thous. of cars.....	874	881	746	727	834	864
Department store sales.....1947-49 = 100.....	113	114	100	110	100	111
Commodity prices, wholesale:						
All commodities.....1947-49 = 100.....	111.3	111.4	111.7	111.9	112.2	113.4
Other than farm products and foods.....1947-49 = 100.....	112.7	112.6	112.8	112.8	112.8	114.8
28 commodities.....August, 1939 = 100.....	290.5	289.6	291.7	293.0	293.4	325.6
Finance:						
Business loans.....mil. of dol.....	21,516	21,235	21,017	20,919	20,799	19,938
Failures, industrial and commercial.....number.....	145	91	110	132	154	160

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Unemployment Low

Unemployment in September was estimated to be at its lowest point since World War II. Only 1.4 million workers, or about 2 percent of the civilian labor force, were idle. Employment remained approximately steady at more than 62 million. However, the agricultural component of employment increased 584,000 over the August level, whereas nonfarm employment dropped about 678,000.

The nonagricultural decrease during September was largely the result of 1.5 million students leaving the labor force to return to school. This reduction was offset in part as the number of women employed increased, probably reflecting the return to jobs of teachers and other school employees. Agricultural employment usually remains steady from August to September, but with cotton picking and the corn harvest in full swing last month, many who had dropped out of the farm labor force during the August lull rejoined it in September. Census data in thousands of workers are as follows:

	September 1952	August 1952	September 1951
Civilian labor force	63,698	63,958	63,186
Employment	62,260	26,354	61,580
Agricultural	7,548	6,964	7,526
Nonagricultural	54,712	55,390	54,054
Unemployment	1,438	1,604	1,606

Record Farm Output Still Possible

Agricultural output for 1952 is expected to be the highest on record. Despite July droughts, which occurred especially in the South, the August estimate of production for the year was 141 percent of the 1935-39 average. This was 3 percent below the July estimate but still 1.5 percent above production in 1951, the previous peak year.

Great strides in farm technology over the last 15 years underlie the possible record output this year. More and

more machinery, fertilizer, and other production goods from the nonfarm economy are being used by farmers. As the accompanying chart shows, increases in output are being obtained with little change in acreage of cropland and fewer hours of farm labor. Production per man-hour, per acre, and per breeding unit of livestock still promise to be at, or near, record highs in 1952.

Steel Strike Recovery

Industries which had been hard hit by the steel strike in July seem to have fully recovered by September. Steel output during June, July, and August was more than 15 million ingot tons under what it would have been had the industry operated at the same rate of capacity as during the same months of 1951. By August, however, steel producers began to recover from the strike-caused July low, and were operating at 92.4 percent of capacity; by late September, production was at 104 percent of capacity.

The automobile industry took its share of cutbacks. Third quarter output of cars and trucks was about 400,000 less than the industry could have produced with its materials allocations. However, as steel began to flow, output increased from 19,000 vehicles at the beginning of August to 115,000 in the final week. Production of other durables, particularly machinery and railroad equipment, was also curtailed because of steel shortages, and although little recovery occurred in August, production increased substantially in September. In contrast, some other steel-consuming industries were not severely affected as large pre-strike inventories were utilized to sustain production.

Manufacturers' Sales Rise Slightly

Manufacturers sales in August were about 2 percent above the July level, on a seasonally adjusted basis, but about 2 percent below last August. Durable goods sales increased 7 percent over July levels, with the rise due entirely to sharp recoveries in the primary metals and motor vehicle industries. Other hard goods sales registered little change. Deliveries of nondurable goods were off \$300 million to \$11.7 billion in August. Leather, paper, and petroleum registered the only sales increases in nondurables.

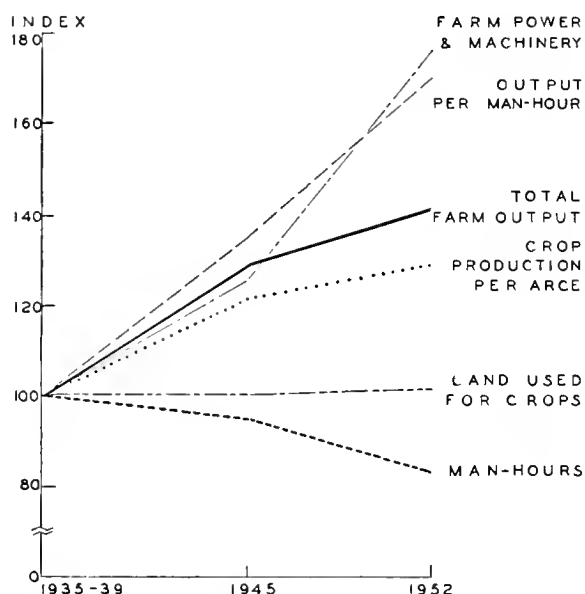
Inventories of durable and nondurable goods producers increased on a seasonally adjusted basis in August. Nearly all the hard goods industries shared in a \$400 million rise, whereas a \$200 million increase in nondurables was caused primarily by larger stocks of petroleum.

New orders received for durable goods were unchanged from the July rate but were sufficiently greater than sales to add nearly half a billion dollars to unfilled orders. Seasonal pickups in the textile and apparel industries were largely responsible for a billion dollar increase in new business received by soft goods manufacturers.

Public and Private Debt Up in 1951

Net public and private debt in the nation rose nearly 7 percent in 1951 to \$519 billion at the end of the year, an amount equal to about \$3,250 per person. The increase was less than in 1950, but larger than in any other peacetime year. Most of the rise was accounted for by advances in aggregate private indebtedness and in state and local borrowings, with virtually no change in the Federal government's indebtedness.

TRENDS IN AGRICULTURE



Source: U. S. Department of Agriculture.

Private obligations, which rose 12 percent in 1951, accounted for 53 percent of the total debt at the end of the year. In 1950 it represented 51 percent; in 1945, the wartime low, it was only 35 percent. About half of the private debt expansion in 1951 was due to a \$14.5 billion advance in short-term liabilities. Nonfarm mortgages and long-term corporate debt accounted for most of the remaining increase.

State and local governments increased their obligations by \$2.6 billion during the fiscal year. Included in this were rises of 23 percent for the states and 10 percent for local governments. Long-deferred capital expenditure programs and greater aid to local governments were chiefly responsible for the state increases. At the local level, school districts led the expansion for the fifth successive year.

Farmers and consumers also went further into debt during 1951. At the end of the year farm obligations amounted to \$13.3 billion. This 11 percent advance over the previous year was attributable to higher costs of farm operation and heavy purchases at higher prices of farms, livestock, motor vehicles, and materials and equipment for farm improvement. Consumer debt increase in 1951 was held to a moderate 3 percent, in marked contrast to the almost 20 percent jump that occurred in 1950.

1951 Fringe Benefits

Fringe benefits to employees, the nonwage labor costs of doing business, in 1951 averaged 18.9 percent of industry payrolls, according to a survey by the United States Chamber of Commerce. This was equivalent to 32.9 cents per payroll hour, or \$1,681 per year per employee. The survey was based on a sample of 736 companies having 100 or more workers, and therefore may not be representative of smaller companies.

Among the reporting companies, fringe payments ranged from 5 percent to over 50 percent of payrolls. The money went to workers under a variety of programs including pension plans, paid vacations, unemployment compensation, sickness and death benefits, and social security payments. Breakdowns by industry groups show that average fringe payments for manufacturing concerns

were \$644 per year per employee, 16.8 percent of payrolls, while nonmanufacturers paid out \$741 per year per employee, or 22.3 percent of payrolls.

A comparison of 138 companies included in two earlier surveys on the same subject by the Chamber of Commerce indicated that the cost of fringe benefits increased from an average of \$410 per year per employee in 1947 to \$681 in 1951. As the accompanying chart shows, the greatest changes were in pensions and other agreed-upon payments, which were up from 3.6 percent of total payrolls in 1947 to 5.5 percent in 1951, and in payments for vacations, sick leave, and holidays, which rose from 5.5 percent in 1947 to 6.7 percent in 1951.

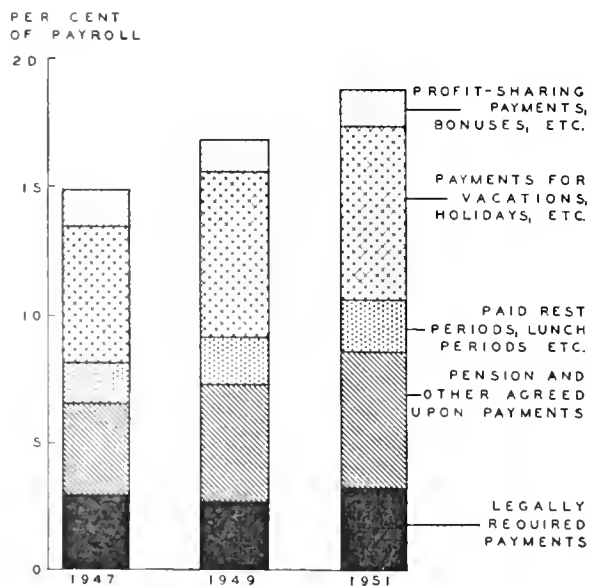
Income Payments Show Continued Rise

Total income payments to individuals were up 12 percent in 1951 to \$243 billion. All forty-eight states shared in the increase, with gains ranging from 3 percent in Nebraska to 23 percent in Arizona. There was, however, broad uniformity among most states in rates of change, as three-fourths of the states fell within a range of 3 percentage points of the national rise.

Per capita income payments also rose, reaching a record level of \$1,584, approximately 10 percent higher than in 1950. Per capita income payments made the greatest rise, 20 percent, in South Carolina and increased least, 2 percent, in Nebraska. Average incomes were highest in the District of Columbia at \$2,095 per person and lowest in Mississippi at \$771.

Nationally, income expanded in all major sectors of the economy. Agriculture was important in altering the geographic distribution of total income from 1950 to 1951. In 10 of the 13 states with the largest increases in total income, farm income was the principal factor underlying the expansion. In total, agricultural income increased by nearly one-fifth as the result of a high volume of production and higher prices.

FRINGE BENEFITS



Source: U. S. Chamber of Commerce.

Tax Reductions Unlikely

(Continued from page 2)

chances for its passage would be particularly small if the Democrats win the election, as it is explicitly opposed in their party platform. In any case, such a change does not seem likely to gain support unless the international situation develops into a new crisis.

Other major tax changes also seem unlikely. The proposed constitutional amendment to limit the personal income tax to a maximum of 25 percent cannot be passed while revenue needs are high, and the pressure for it will diminish thereafter as rates are again reduced.

The possibility of budget-cutting to make some of the present taxes unnecessary is also limited. The budget to be put before Congress in January will be President Truman's. Even if the president-elect reviews it in advance, he will not be able to do much about it. With responsibility thus focused on the outgoing Administration, the chances favor promises to do something in 1954 rather than any drastic changes in 1953.

Obviously, judgments vary widely on what changes are likely to take place with the new Congress and the new Administration. Our guess is that they will not be able to agree on any alternatives, and so will fall back on an extension of existing taxes, with perhaps some relatively minor adjustments in rates.

VLB

BUSINESS BRIEFS

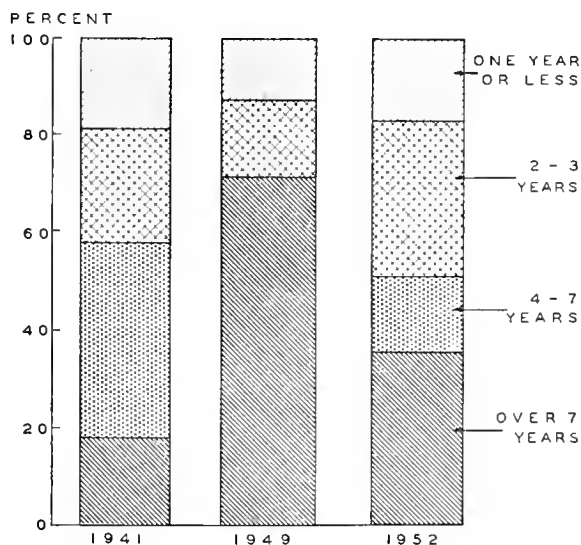
PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Higher Proportion of Newer Cars

The age distribution of automobiles changed substantially between 1951 and 1952 although the total number of cars in use in early 1952 was not significantly different. About 60 percent of families and other spending units in urban areas owned automobiles in both years according to the 1952 Survey of Consumer Finances reported in the *Federal Reserve Bulletin*. For the first time in the postwar period the number of consumer spending units purchasing new cars declined. The proportion of cars two and three years old (1950 and 1949 models) increased, but the proportion of cars one year old (1951 and early 1952 models) declined slightly, reflecting the lower level of production and sales of new cars in 1951 as compared with the previous year.

The chart shows how the age distribution of automobiles owned by urban families has changed as a result of the wartime stoppage of car production. In 1949, after three years of postwar output, the proportion of cars more than seven years old was almost four times as large as in 1941 and nearly twice as large as in early 1952 when all in this age group were more than ten years old. A definite movement back toward the prewar pattern is evident from the chart and a continuation of this trend may be expected as more new cars are produced and the older ones scrapped.

AGE DISTRIBUTION OF AUTOMOBILES



Source: Federal Reserve Board.

Push-Button Fire Extinguisher

A push-button type fire extinguisher designed for home, workshop, or garage use has been developed by the Pyrene Manufacturing Company, Newark, N. J. The device dispenses a vaporizing liquid in a 25-foot stream by compressed air and is said to handle "almost any fire emergency around the home." It can be used against small fires caused by wood shavings, gasolines and other flammable liquids, faulty wiring, power tools, and household appliances.

Weighing two and one-half pounds when filled, the pint-size extinguisher has a stainless steel shell and a red plastic head. The user simply presses down a button for action. When the button is released, the flow stops. To refill, the head is removed, the shell filled with extinguisher liquid, the head replaced, and the extinguisher recharged with compressed air from any gasoline station hose line. Further information about the fire extinguisher, which retails for \$7.95, can be obtained from Gray and Rogers, 12 South 12th Street, Philadelphia 7, Pa.

Readings in Marketing Research

Widely scattered articles on techniques and procedures of marketing research drawn from many different fields of thought have been brought together in a volume entitled *Marketing Research—Selected Literature* by Hugh G. Wales and Robert Ferber, of the University of Illinois staff. Material has been favored which supplements, rather than competes with, the subject matter of standard treatises. Another criterion of selection derives from the aim of the volume to highlight particular research techniques of significant value in practical market research which, for one reason or another, have not yet received as much emphasis as they may deserve. Preference has also been given to material not readily available to workers in the field. The book is published by William C. Brown Company, Dubuque, Iowa, and is priced at \$5.00.

No-frost Windshield Protector

A plastic no-frost windshield protector called "Cenco" eliminates the hazard of windshields becoming ice-covered when the car is parked during sleet, rain, and snow. Made of polyethylene, a plastic sheet with sewn-on cloth edge, the product can be folded and kept in the car's glove compartment. It can withstand 60 degree below zero temperature without becoming brittle and will not stick to the windshield. The makers, the Central States Paper and Bag Company, St. Louis, Mo., claim the plastic product will fit all cars and can be installed in a few seconds. The car doors hold it tightly in place. For additional information write to the Padeo Advertising Company, 7510 Delmar Blvd., St. Louis 5, Mo.

Cellar Drainer for Homeowners

An unusual type of submersible sump pump or cellar drainer with no protruding floats or rods has been produced by Fairbanks, Morse and Company, 600 South Michigan Avenue, Chicago 5, Illinois. The complete unit can be installed in the sump pit with no extended pump shaft above the floor level.

The cellar drainer features a completely enclosed motor and operating switch, stainless steel housing that keeps electrical parts clean and dry, and the additional functioning of the housing as a float to control pump operation. If the electrical power fails, the housing permits the pump to be submerged without damage to the motor. The unit is easily installed by connecting the discharge piping and plugging in an electric cord. Operating range is set at the factory and no float adjustment is needed. The unit insures dry basements and protection to the homeowner from flash floods or backed-up sewers at a relatively low cost, according to a company statement.

THE OUTLOOK IN COLLECTIVE BARGAINING

W. ELLISON CHALMERS and SOLOMON LEVINE

Institute of Labor and Industrial Relations

Less than one-fourth of the labor agreements this year have required approval of the Wage Stabilization Board. Most wage contracts have fallen within the automatic, self-administering regulations of the control agency, which include the allowable 10 percent "catch-up" formula and the cost-of-living escalator. Under these two regulations, unions have been able to obtain basic wage rate increases of at least 16 percent from January, 1950, levels without the need of seeking WSB sanction.

Pattern of Recent Wage Contracts

Wage rate increases have received the major emphasis in collective bargaining negotiations of recent months. The majority of new contracts since the beginning of the year have dealt principally with wage changes rather than with fringe benefits and nonmoney items.

The wage agreements achieved in steel during July and in coal at the end of September exceed the "ceilings" imposed by the automatic WSB rulings. In steel, the increase has been slightly less than 20 percent from the January, 1950, level, whereas the wage rate rise in coal is about 30 percent on this basis. These agreements raise two questions: whether the economy will be faced with steadily mounting pressure for wage increases, and whether such pressure presages widespread union-management disputes and work stoppages.

The steel dispute, beginning last December and ending in July after the industry had been shut down two months, had as one of its major issues the extent to which wage rates would be allowed to rise. The steel companies took the position that until they were assured of a boost in price ceilings to absorb the expected cost increases they would not negotiate a contract. In addition, they balked at yielding the union-shop demanded by the United Steelworkers. However, in an agreement negotiated at the White House on July 25, the steel companies did make concessions on both major issues, in line with recommendations set forth earlier by the WSB, and they also secured a price increase averaging \$5.65 per ton. The average wage increase of 16 cents per hour raised the basic wage rate a little less than 10 percent.

Negotiations in the coal industry on the other hand were concluded "peacefully." As in other contracts, attention centered on wages. The United Mine Workers obtained a rise of \$1.90 in the industry's basic daily wage and a 10 cents per ton advance in royalty welfare fund payments (20 cents in anthracite). Although this increase meant that the mine workers had far outstripped other industries in total wage rate gains since January, 1950, the recent raise taken alone was approximately 11 percent above the preceding contract for coal — percentagewise, only slightly "sweeter" than steel and other bargains. The relative advantage in coal, in comparing its total wage rate advance since early 1950 with those in other industries, arises from the union-management settlements of March, 1950, and February, 1951; the latter, while technically exceeding the 10 percent "catch-up" allowed by the WSB for workers who had enjoyed less than a 10 percent increase during the period January, 1950, to January, 1951, was permitted because it had been negotiated just prior to the "freeze" order of late January, 1951.

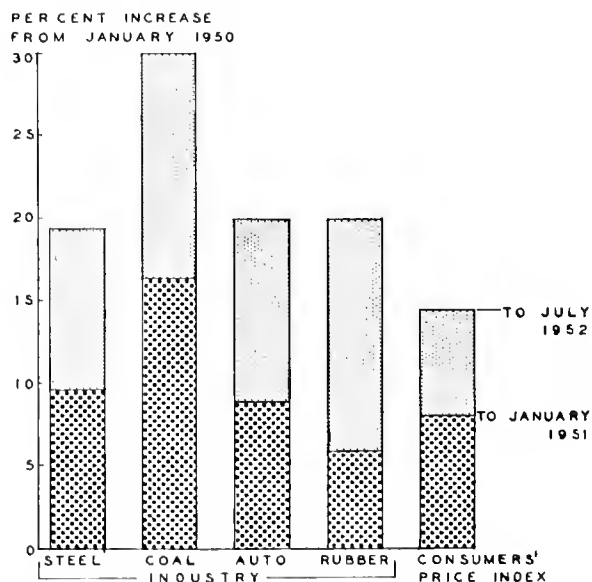
Until the coal agreement was reached a few weeks ago, wage stabilization efforts appeared to be setting a limit of about 20 percent above levels prevailing in the months before the outbreak of the Korean conflict. In this sense, the steel agreement could not be said to have established a distinctly new "pattern"; for wage raises approved for other industries before the steel settlement occurred — in autos, meat-packing, textiles, and railroads — had already mounted to about 20 percent above early 1950 levels. To this list oil, electrical products, and rubber were subsequently added. The accompanying chart indicates the extent of the rise in general wage levels negotiated in certain "key" bargains since January, 1950.

On the other hand, in the bituminous coal industry, the WSB majority decision — allowing only a 9 percent raise in the miners' basic daily wage rather than the 11 percent increase agreed to in the negotiations — results in about a 27 percent advance over January, 1950, levels. (The Board ruled that the royalty fund increase did not require specific approval because the welfare benefit structure was unchanged.) The WSB decision was based on the need "to maintain proper wage relationships and prevent hardships and inequities." While dissatisfaction with the Board's action is being expressed, as of this writing, in a general stoppage in the industry, it is clear that the Board's modified approval accepts the appropriateness of increases moderately higher than its cost-of-living formula.

Prospects Favor "Peaceful" Advance

Nonetheless, the recent major settlements may be expected to give impetus to general spreading of wage increases. This development, of course, will be all the more likely if living costs continue to inch upward to new record highs. Already, for example, the CIO auto workers are asking for a revision of their loudly-

WAGE RISES IN SELECTED INDUSTRIES



Sources: Wage Stabilization Board; Bureau of Labor Statistics.

acclaimed five-year contract (which is not set to expire until 1955) in order to incorporate cost-of-living allowances permanently into their base rates and to increase payments under the "annual improvement" clause. Likewise, recent disputes in aviation, electrical products, and farm equipment emphasize a desire to "catch up."

However, other factors in the situation appear to dampen the possibility of a serious rash of labor disputes. For the time being, issues other than wages appear to be of secondary importance. Although conflicts such as the one over the union shop in steel may be expected to occur sporadically, the narrow scope of bargaining tends to limit the complexity of union-management conflicts.

Also, the rise in wage rates promises to be gentle and gradual unless some sharp turn in general business activity should occur. Although the advance in gross average weekly earnings and net spendable weekly earnings ("take home" pay) have lagged behind the rise in the cost of living during the past eighteen months, the lag has amounted to only a small percentage. This, of course, furnishes some of the pressure for "catching up," but may be readily accommodated through the continuing gradual increase in industrial productivity. On the other hand, we are experiencing no sharp advance in productivity to lay the basis for augmenting pressure for wage raises. Moreover, although there are reports of increasing needs for various types of labor, primarily to meet our defense needs, labor markets generally appear to be fairly stable and relatively free of shortages that might be apt to generate serious pressure upon wages.

Another factor tending to facilitate settlements is the fact that in some industries prices have been below ceilings, giving management leeway to absorb cost increases through price adjustments. Where prices are at their ceilings, the strong possibility that the stabilization agency and Congress will loosen controls also weakens employer resistance to wage demands. Thus, despite the upward pressure on wage rates, a close examination of current developments does not indicate an explosive situation liable to result in numerous strikes and lockouts.

Preparing for Future Emergencies

But even though the prospects for peaceful settlements appear fairly good, the country must be ready for emergencies. Some future strike may affect essential production even more seriously than the recent steel strike. It is not surprising, therefore, that many proposals have been advanced to reconsider and overhaul those provisions of the Taft-Hartley Act dealing with national emergency disputes. In varying degrees, these proposals have aimed at the general objectives of maintaining continuity of production, of preserving maximum freedom in collective bargaining, and of assuring "fair" settlements.

Most students agree as to the need for avoiding governmental coercion as far as possible. Our democratic concepts lead us to strongly prefer agreements voluntarily made by the parties themselves. Even if government intervention becomes necessary in an individual dispute, it should not create a pattern for the future.

There are a variety of useful proposals that involve a minimum of government coercion. Government mediation is frequently successful. Insofar as possible, efforts should be limited to mediation until a stoppage threatens to damage the nation seriously. In many industrial areas, the current coal situation being a case in point, national safety would be affected only if a strike were prolonged.

We have also had considerable success with govern-

ment encouragement of an advance agreement by the parties on a procedure for avoiding stoppages. This worked well in World War II, but failed after the end of the war. If the situation warrants, it could be tried again. In particular instances, agreements for voluntary arbitration, binding both parties to accept the decision of an impartial board, can be obtained by government appeal.

Frequently, the device of a "cooling off" period has worked. If the parties can be persuaded to continue negotiations - and production - beyond an original deadline, an agreement may be reached. This approach is incorporated in the Railway Labor Act and the Taft-Hartley Act and has been fairly successful. In both cases, however, the fact that it was spelled out led the parties to adjust their strategies in advance. It can be even more effective if used without advance warning.

Each of these alternatives seeks to leave it to the parties to work out their own terms of settlement and uses the government only to press the parties to reach such a conclusion without a stoppage of the kind that would endanger the nation. If the situation is serious enough the government may need to become more directly involved in determining the terms of settlement.

Two coercive proposals should be avoided because they would so seriously change the character of the government's relation to the economy. The first of these is compulsory arbitration. This would take out of the hands of the parties and place within the government the entire responsibility for the complex relationships between labor and management in all basic industries. The second is a proposed ban on nationwide bargaining, which would prohibit any negotiations covering so many plants that a stoppage would threaten the nation. To do so might well be to cripple the bargaining power of one side while it strengthened the position of the other. This could result in privately dictated settlements and appears to be impractical as well. For instance, neither the recent coal nor steel negotiations took the form of single agreements that could be reached by such a prohibition.

There are other coercive proposals that are less damaging to collective bargaining. One is the device of impartial fact-finding and recommendation of the terms of the settlement. This has been successfully used on the railroads and elsewhere. The other would employ government seizure, a device used with considerable success during the war. In order not to use the government to advance the interest of one side as against the other, however, seizure itself is not enough. It would have to include, as it did during the war, the authority of the government to impose a fair settlement of the disputed issues or establish penalties against both sides.

No one of the proposals listed can be certain of success. It would be more realistic to use a flexible combination of them. Such an approach would empower the government to select from an "arsenal" of alternatives the weapon most likely to be successful at a given time in a given situation. It would permit the adaptation of government strategy to the particular aspects of a situation just as the parties themselves vary their own strategies. The very uncertainty of the next government move would achieve a maximum pressure on both parties to settle the dispute themselves without endangering the nation. Such an approach involves giving the government the necessary power. And it involves confidence, by the parties themselves and by the public, in the fairness as well as in the determination of those in charge of the national administration.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business indicators revealed the first signs of recovery during August. Consumer prices in Chicago continued the slow but steady increase begun last March. Electric power production and farm prices received had risen for the past two months. For the first time since January, coal production registered a substantial gain over the previous month although it was still far below production of a year ago. Department store sales advanced both for the month and for the year. Some other indexes—bank debits, construction contracts awarded, and petroleum production—dropped, but the declines were partly seasonal in character.

Steel Production Recovers

Although total steel production in the Chicago district for August, 1952, was down 2.6 percent from a year ago, the 1,819,239 net tons produced reflected rapid recovery from the two-month steel strike. In July only 307,433 net tons were produced and mills operated at 16.3 percent of capacity. In August, the fifteen companies in the Chicago area operated at 96.5 percent of capacity, a substantial recovery though 5.7 percentage points below a year ago.

The downturn in Illinois manufacturing employment was accelerated in July by the steel strike. As of mid-June the employment effects of the steel strike in Illinois were limited to the steel industry, but by mid-July steel-using industries were affected. Other nonfarm employment declined no more than seasonally in July. Continued activity in construction, insurance, and real estate kept more people at work than in July, 1951.

Illinois Income Payments in 1951

Total income payments to individuals in Illinois in 1951 amounted to \$17 billion. This was 7 percent of the United States total. On a per capita basis, the State's \$1,928 was far above that for the country as a whole, \$1,584. Because Illinois population grew by less than 1 percent, the 10 percent increase in aggregate income was only slightly more than the percentage rise in per capita income.

Major source of income payments in the State was manufacturing payrolls, up 16 percent over 1950. Trade and service income, the second major source, rose 9 percent. Almost one-eighth of total Illinois income came from government income payments, which increased 3 percent during the year. Farm income was a principal factor underlying the 1951 expansion, rising 23 percent. Nonagricultural income rose approximately 10 percent.

Consumers' Price Index Advances Again

The consumers' price index for Chicago advanced 0.4 percent from mid-July to mid-August primarily because of increases for food and apparel. The gain from July to August was the sixth consecutive monthly increase reported for Chicago. The index for August was 196.7 (1935-39 base), 3.0 percent above the level of a year ago and 12.3 percent higher than June 15, 1950 (pre-Korea). Food prices accounted for most of these gains. From August, 1951, to August, 1952, they advanced 3.6 percent; and from June 15, 1950, 16.0 percent. Some food items for which major increases were reported over last year were fresh fruits and vegetables, dairy products, and beverages. These were offset by declines in the prices of frozen fruits and vegetables, fats and oils, and eggs.

Farm Prices Down

Illinois farm prices were down 5 percent in mid-September from their level of a year earlier, but farmers had to pay 1 percent more for the things they bought. The all-commodity index of prices received by Illinois farmers on September 15 stood at 294 percent of the 1910-14 base period, compared with 301 percent in August. The United States index of prices paid by farmers, including taxes, interest, and wages was 284, 1 percent less than the previous month but slightly above September, 1951.

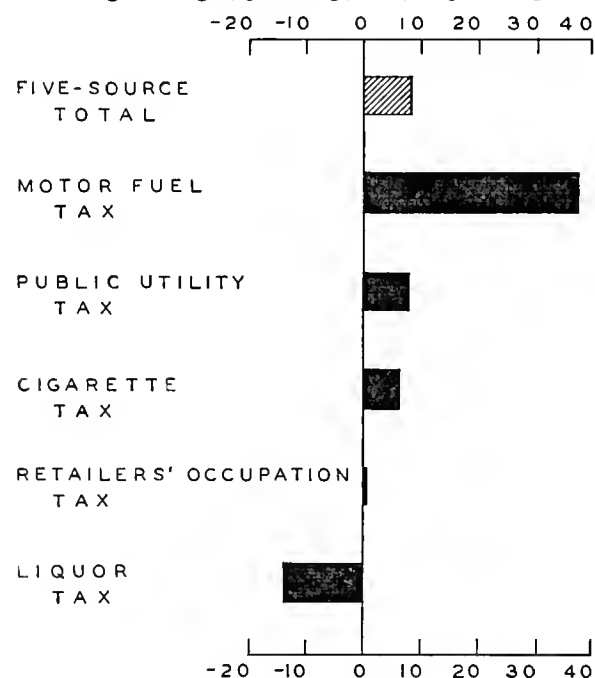
Among farm commodities, crop prices were down 2 percent from August but up 1 percent from September, 1951. Corn was down two cents from August, whereas wheat and oats were up. Livestock was off 2 percent from August and the hog-corn ratio at 11.4 was down 8 percent from the preceding month.

Illinois Tax Revenues

The relative importance of the main source of Illinois state tax revenues shifted somewhat in the first eight months of 1952, as indicated by the accompanying chart. Total revenues from these sources amounted to \$243 million, a gain of 8 percent over the same period in 1951. Most of the increase, however, was accounted for by the one-cent boost in motor fuel taxes, which raised revenue from this one source by 38 percent. Revenues from other tax sources also rose, with the exception of liquor tax receipts, which registered a substantial drop, 14 percent.

Despite these changes, the retailers' occupation (sales) tax continued to be the most important source of tax income, accounting for more than half of the \$243 million received by the state in January-August, 1952, from these five sources. Motor fuel taxes accounted for a fourth of the revenue during this period, with the other three sources varying between 6 percent and 9 percent each.

ILLINOIS TAX INCOME
Percentage Changes, Jan.-Aug., 1951, to Jan.-Aug., 1952



Source: Illinois Department of Revenue.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

August, 1952

	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS	\$18,688 ^a	839,138 ^a	\$467,366 ^a		\$9,730 ^a	\$11,701 ^a
Percentage Change from.....						
July, 1952.....	-40 6	+4 4	-7 9	+21 9	-16 6	+9 8
Aug., 1951.....	-31 6	+4 8	+2 7	+0 8	-6 0	+8 4
NORTHERN ILLINOIS						
Chicago	\$13,059	648,001	\$339,372		\$8,805	\$10,276
Percentage Change from.....						
July, 1952.....	-40 2	+4 3	-8 1	+21 6	-17 5	+10 3
Aug., 1951.....	-30 5	+2 4	+2 7	+0 1	-6 0	+8 6
Aurora	\$ 214	n.a.	\$ 6,878		\$ 42	\$ 86
Percentage Change from.....						
July, 1952.....	-74 9		-4 3	+23 5	-2 0	+13 1
Aug., 1951.....	-70 9		+6 9	+3 4	+1 2	+11 0
Elgin	\$ 377	n.a.	\$ 4,823		\$ 27	\$ 86
Percentage Change from.....						
July, 1952.....	+33 7		-6 3	n.a.	+1 6	+33 2
Aug., 1951.....	+32 3		+4 2		+1 8	+8 0
Joliet	\$ 531	n.a.	\$ 9,714		\$ 51	\$ 64
Percentage Change from.....						
July, 1952.....	-77 0		-6 5	+17 8	-0 4	+16 9
Aug., 1951.....	-49 8		+11 1	+9 8	+4 1	-2 4
Kankakee	\$ 161	n.a.	\$ 4,790		n.a.	\$ 28
Percentage Change from.....						
July, 1952.....	-51 9		-9 0	+15 4		-4 2
Aug., 1951.....	-39 0		+15 3	-4 3		-2 8
Rock Island-Moline	\$ 897	14,770	\$ 8,996		\$ 33 ^b	\$ 151
Percentage Change from.....						
July, 1952.....	-34 2	-5 6	-7 8	n.a.	-7 6	+17 3
Aug., 1951.....	+9 8	-15 5	+1 5		-4 9	+20 0
Rockford	\$ 644	27,352	\$ 13,953		\$ 128	\$ 143
Percentage Change from.....						
July, 1952.....	-60 6	+17 1	-6 5	+25 3	-0 6	+8 5
Aug., 1951.....	-5 7	+12 9	-1 8	+2 9	+2 2	-3 5
CENTRAL ILLINOIS						
Bloomington	\$ 186	5,933	\$ 4,913		\$ 52	\$ 104
Percentage Change from.....						
July, 1952.....	+97 9	+4 6	-10 4	n.a.	+2 2	+16 0
Aug., 1951.....	-38 0	+18 9	+6 8		+12 5	+16 5
Champaign-Urbana	\$ 365	7,195	\$ 6,464		\$ 44	\$ 63
Percentage Change from.....						
July, 1952.....	+54 7	-4 4	-14 8	n.a.	-15 9	-0 8
Aug., 1951.....	-18 7	+13 4	+6 8		-8 1	-3 0
Danville	\$ 193	7,911	\$ 5,357		\$ 41	\$ 45
Percentage Change from.....						
July, 1952.....	-5 9	+3 7	-12 6	+30 4	-8 4	-0 1
Aug., 1951.....	+41 9	+5 8	+1 3	+4 5	-1 5	+2 4
Decatur	\$ 357	18,805	\$ 8,708		\$ 71	\$ 85
Percentage Change from.....						
July, 1952.....	+18 2	-7 2	-7 7	+18 6	-15 3	-6 2
Aug., 1951.....	-67 2	+10 3	+2 8	+6 0	-7 0	+2 1
Galesburg	\$ 207	4,877	\$ 3,722		n.a.	\$ 26
Percentage Change from.....						
July, 1952.....	+41 8	-16 0	-5 9	n.a.		-11 9
Aug., 1951.....	-31 5	-8 8	+3 3			-2 7
Peoria	\$ 398	41,793 ^c	\$ 15,111		\$ 172	\$ 179
Percentage Change from.....						
July, 1952.....	-22 7	+14 3	-11 0	+26 3	-13 3	+1 9
Aug., 1951.....	-64 8	+59 3	-6 0	+4 2	-13 6	+15 6
Quincy	\$ 206	7,200	\$ 4,497		\$ 33	\$ 72
Percentage Change from.....						
July, 1952.....	-3 3	+15 4	-4 3	+22 0	-2 1	+13 9
Aug., 1951.....	-10 4	-1 6	+3 1	0 0	+0 7	+3 4
Springfield	\$ 277	25,154 ^c	\$ 13,020		\$ 81	\$ 180
Percentage Change from.....						
July, 1952.....	-58 2	+0 7	+1 4	n.a.	-8 5	-8 6
Aug., 1951.....	-37 8	+10 4	+4 2		-2 7	+6 2
SOUTHERN ILLINOIS						
East St. Louis	\$ 414	13,174	\$ 8,758		\$ 119	\$ 57
Percentage Change from.....						
July, 1952.....	+71 1	+7 0	-4 5	n.a.	-8 8	+24 5
Aug., 1951.....	+44 3	+6 7	+3 2		-18 5	+21 6
Alton	\$ 119	11,939	\$ 4,281		\$ 31	\$ 26
Percentage Change from.....						
July, 1952.....	-24 7	+1 8	-11 3	n.a.	-5 3	+9 5
Aug., 1951.....	-11 2	+8 3	+3 5		+5 7	+7 4
Belleville	\$ 83	5,033	\$ 4,009		n.a.	\$ 31
Percentage Change from.....						
July, 1952.....	+5 1	-6 9	-4 2	n.a.		-3 9
Aug., 1951.....	-85 7	+4 3	+1 9			-14 9

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for July, 1952, the most recent available. Comparisons relate to June, 1952. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

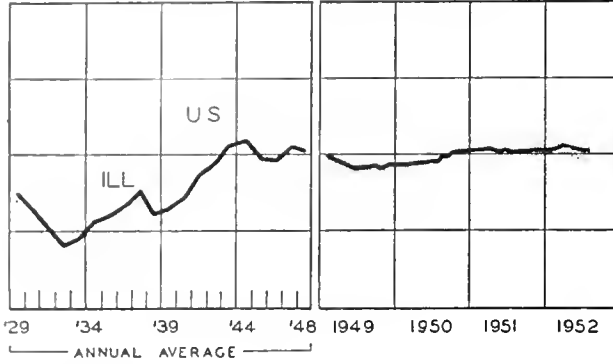
^c Includes immediately surrounding territory.

n.a. Not available.

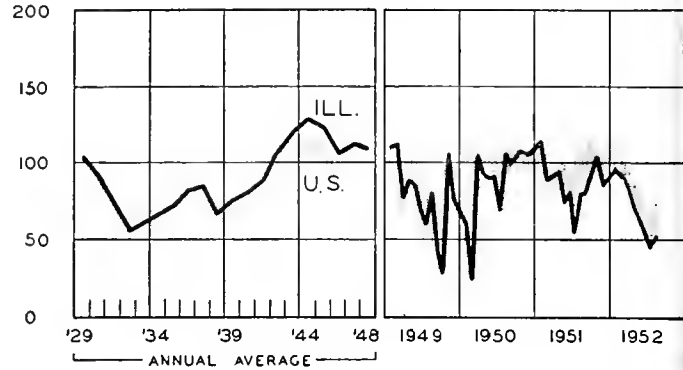
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

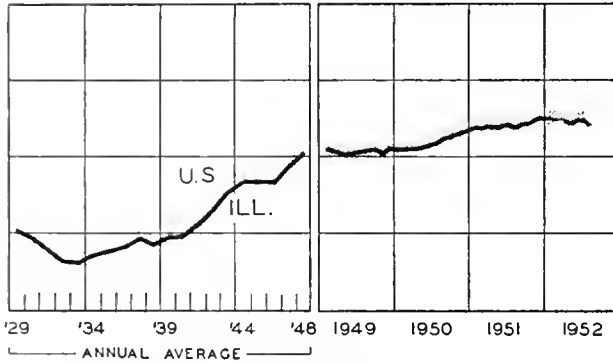
EMPLOYMENT - MANUFACTURING



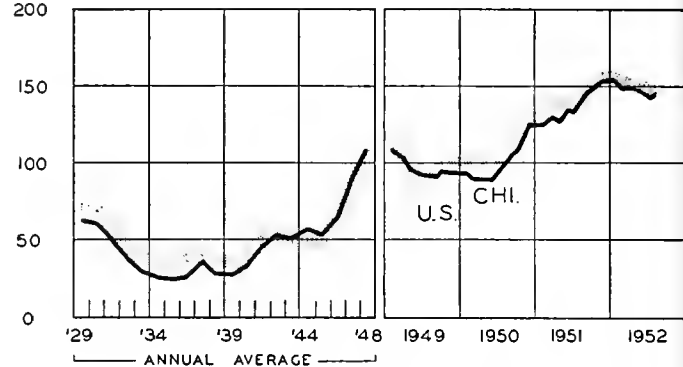
COAL PRODUCTION



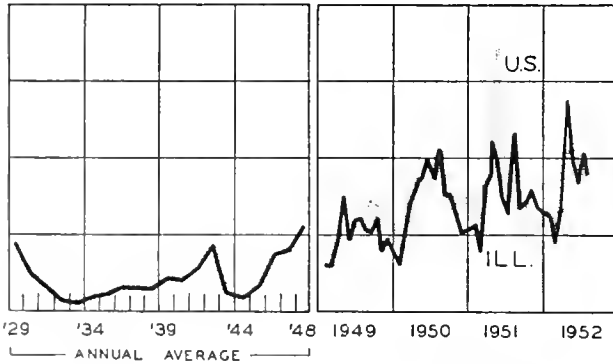
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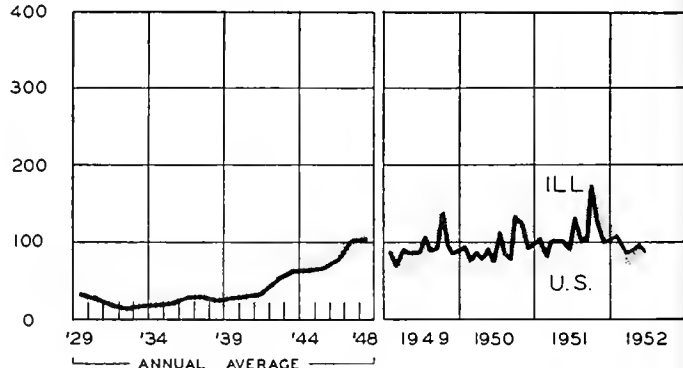
BUSINESS LOANS



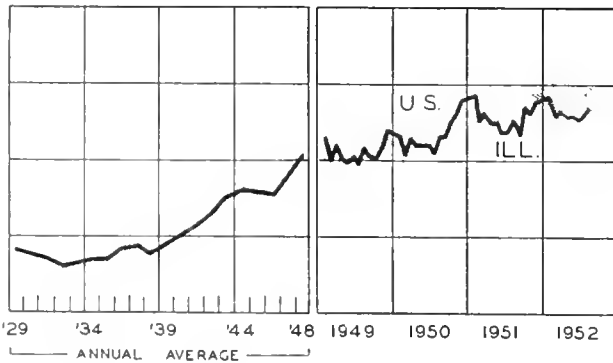
CONSTRUCTION CONTRACTS AWARDED



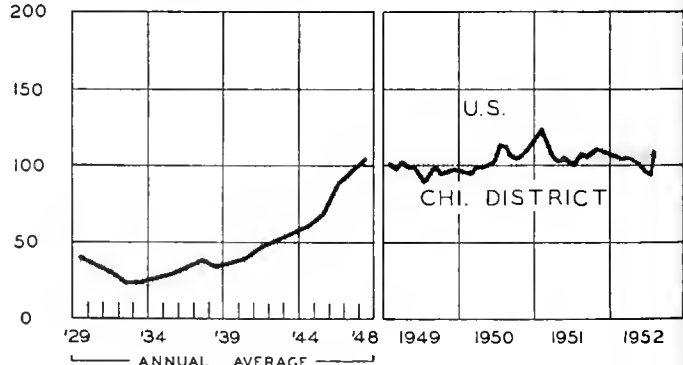
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



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A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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HIGHLIGHTS OF BUSINESS IN OCTOBER

The fall pickup in business activity was in full swing in October. The Federal Reserve index of industrial production inched upward to 226 percent of the 1935-39 average, a one point gain over September, and might have been considerably higher had it not been for labor difficulties in the coal fields leading to a 30 percent drop in October's soft coal output. Other industries were not affected, however, and increased production was reported in many key sectors. Crude petroleum output continued to rise. Steel output was scheduled at a record annual rate of 116 million ingot tons for the month. Passenger car assemblies averaged over 100,000 per week; and production of household durable goods, bolstered by a rising output of television sets, was maintained at high levels.

On the retail scene, department stores on the whole were off to an unusually good start on the fall season. Sales for each week of October averaged 7 percent above the corresponding week of October, 1951.

Unemployment at Low Point

The number of people out of work and actively seeking employment dropped in October to the lowest point in seven years. At slightly below 1.3 million, unemployment was down 150,000 from September and more than 300,000 from October of last year.

The high level of general business activity was undoubtedly responsible for this drop in unemployment as well as for the maintenance of the number of people employed in nonfarm occupations at the September level of 54.6 million. Employment would have been higher had it not been for some declines in nonfactory employment and a further loss from temporary jobs of students who returned to school after the September survey. (The sample of the labor force is taken in the early part of the month.)

Wholesale Prices Continue to Decline

Wholesale prices constituted one of the few sectors of economic activity that did not respond to the general upswing in business. This was especially true of the highly sensitive Bureau of Labor Statistics index of 28 spot commodity prices, which has been declining more or less continuously for most of the year. A further drop, amounting to 3.2 percent, occurred in October, and brought the index down to 280 (August, 1939 = 100).

This new decline represented a fall of 28 percent from the post-Korea high reached in February, 1951, and brought the index to within 10 points of its level when the fighting in Korea began. Fluctuations in the prices of the industrial materials included in the index have been primarily responsible for the decline as well as the earlier upswing.

The trend of the comprehensive Bureau of Labor Statistics index of wholesale prices has been similar to that of the spot price index, though with much milder fluctuations. With a few interruptions this index has been declining since March, 1951, though so gradually that the total decline to the end of October amounted to less than 6 percent, leaving the index 17 percent above the pre-Korea level. The October decline was less than 1 percent.

Business Inventories Below Last Year

Business entered the fall season with inventories below the level of last year. At \$70.3 billion, total business inventories at the end of September were \$500 million less than in September of 1951. Inventory holdings did rise by about \$1 billion from the August level, however, a more than seasonal increase.

Although retail holdings registered the largest gain as compared with August, the value of goods on retailers' shelves at the end of September was \$1.2 billion less than last September's figure, amounting to \$17.6 billion on a seasonally adjusted basis. Manufacturers' stocks, on the other hand, were up \$2.1 billion over last September to a seasonally adjusted figure of \$43.2 billion.

Farm Income in 1952

The gross income of American farmers, which includes government payments to farmers and the imputed value of home-consumed farm products as well as cash receipts from marketings, was higher in 1952 than in any previous year, but also cost farmers a lot more to get it. As a result, only about 38 percent of the gross was retained in the form of net income, which is expected to drop slightly to \$14.2 billion for the year.

The prospect for 1953, according to the United States Department of Agriculture, is for a further decline in farmers' net income, by approximately 5 percent. Gross income is likely to be at much the same level as this year, but an additional increase in production costs is expected.

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World-Wide Respite From Inflation

During the past year, there has been a cessation of inflationary pressure and a movement toward balance in international accounts through most of the Western world. In Britain prices have continued up, but only because of the reduction of food subsidies; and even Britain unexpectedly earned a modest surplus in its balance of payments in the first half of this year, as compared with a large deficit in the second half of 1951.

These results have been the occasion of widespread favorable comment and various governments have been receiving congratulations for the success of their policies in bringing this happy state of affairs about. What are the facts behind the success thus far achieved? Have the underlying problems really been dealt with effectively?

Background of the "Disinflation"

Behind many of the recent economic changes abroad lies the fact that our own economy has gone through a complete cycle of business boom and letdown during the past two years. Various kinds of lags, interactions, and restrictions have modified the course of events in other countries, but most of the Western world was carried along with us through this cycle.

Changes initiated by our activities set the pattern for the world-wide inflationary upsurge. We bought without restraint, for inventory as well as for current use, our imports rising about 60 percent from the first half of 1950 to the corresponding period of 1951. At the outset, other countries did not feel the emergency to be so serious, or did not have the foreign resources to buy correspondingly, but to some extent all participated in the scramble for supplies. Then we cut our buying, at least where we felt prices to be too high, and began in a limited way to liquidate accumulated stocks. In the reaction from earlier excesses, some lines of business were significantly depressed. A corresponding letdown took place in most other countries. The textile recession in particular was a world-wide affair. Out of the business setback came a kind of stability, though not the kind so widely sought.

Recent relief from balance-of-payments difficulties is in large measure merely an aspect of this basic sequence of change. In the early stages of the boom, most countries found themselves with additional dollars to spend as we

hastily bought up everything we thought we might need in an emergency. Britain's position improved so rapidly we cut off aid payments. Other countries in turn decided to spend more freely and in many cases relaxed their restrictions on imports. Being slower to enter the boom put them at something of a disadvantage, because we did much of our buying before prices got up, whereas their imports began to flow in greatest volume when prices were at the peak. That was where we reversed our policy of unrestrained buying—in fact, our stopping at that point brought on the turn that made it a peak. Then with their trade running high, and ours tapering off, the balance turned sharply against them in the latter half of 1951.

Their reaction was, of course, to restrict imports again, sometimes even more severely than before. Fortunately, they were aided by the reduction in demand that is characteristic of a business recession. Moreover, the decline in prices of basic materials cut the cost of imported goods, so that import values declined in the early part of 1952 even where volume had to be maintained.

In the meantime, our imports had begun to move up again. Our government also began purchasing a larger volume of goods and services for use abroad, primarily for defense purposes, making a contribution to dollar payments that largely offset the decline in government grants and loans from the pre-Korean period. In addition, there were lags and cutbacks in military programs, abroad as well as here, reducing the strain on productive resources. These are the characteristics of the recent period of "disinflation." The outcome was determined with little regard to the specific control policies adopted by the various governments.

No Solution Yet in Sight

The economic scene here in the United States holds little to indicate that the stability of fiscal 1952 is anything more than a temporary condition. We are already embarked on a new advance of substantial proportions. That it has not yet brought a new wave of price increases may be attributed to two restraining factors—large farm production and the fear that a new recession will set in during the next year or two. As our buying expands, other countries will again gain dollars from the increase in our imports; but any advantage of this to the industrialized countries of Europe will be offset to the extent that basic commodity prices are again bid up.

The position of Britain is at best highly uncertain. The increase in its reserves during the first half of 1952 barely exceeded the receipts of United States aid. Even that limited surplus was largely seasonal. Payments on the North American loans are due only at the year end, and so do not affect balances during the first half; and in other respects also the first half results were a borrowing from the second half of the year, as the *London Economist* points out (October 11, p. 113). Moreover, the attempt to gain stability by lifting the subsidies and thus taxing consumer incomes through higher food prices is more a hope than an accomplished fact. It will work only if the British people do not insist on greater earnings to recoup the cut in their living standards.

In France, quite a contrary course of action has been pursued. There, prices were lowered by edict, with no corresponding reduction in consumer incomes. Again the ultimate effect is merely hopeful. Possibly, as is intended, the increase in real incomes will provide an incentive for

(Continued on page 6)

MARGARINE PRODUCTION IN ILLINOIS

Rising population, consumer demand for a low cost table spread, removal of Federal and state taxes and dealer fees, and considerable quality improvement have combined to make margarine one of America's fastest growing food products.

Since 1940, per capita consumption of margarine has risen from 2.4 pounds to 6.6 pounds in 1951, and to an estimated new high of 7.7 pounds in 1952. As a result, margarine production has climbed from 320 million pounds in 1940 to an estimated 1.1 billion pounds in 1952.

The repeal of Federal and many state taxes on margarine by 1950 undoubtedly contributed to this trend. Since 1943, 21 states including Illinois have abolished prohibitions on the sale of yellow margarine. Today, only seven states, most of which are heavy producers of dairy products, still retain this type of restriction. This means that yellow margarine is now legally available to 82 percent of the nation's population, as compared with 29 percent in 1940.

Development of Margarine

Although present-day margarine bears only the most superficial resemblance to the first commercially produced margarine, the origin of the industry can be traced back to Napoleon III. During the Franco-Prussian War, the need for a butter substitute caused the Emperor to offer a large cash prize for a product which could be used by the navy and by the poorer people of France in place of butter. This prize was awarded to a chemist named Mège-Mouries in 1869; four years later his process was patented in the United States and the commercial manufacture of margarine was begun in this country.

The Industry in Illinois

By 1895 there were 17 factories making margarine in the United States, five of which were in Illinois. By 1947 this number had grown to 27 establishments for the United States, whereas the number for Illinois had remained at five. However, the Illinois margarine industry still led all other states in number of establishments, employment, payrolls, value added, and value of products shipped. The five establishments, although less than one-fifth of the nation's total, employed almost one-third of the industry's workers, paid over one-third of the industry's wage and salary bill, and accounted for more than one-fourth of the value of products shipped.

The industry continued to grow in the postwar years. There were nine manufacturers of margarine in Illinois in 1952, and of these, eight were located in Chicago and the other in Elgin. The industry's location in the Chicago district is probably due to its former dependence on the meat-packing industry for its supplies of fats. It is significant that most of the firms located in Illinois are engaged in the meat-packing business as well as in the production of margarine. Until recent years, large quantities of animal fats were used in margarine. As late as 1942 more than 10 percent of the ingredients of margarine were

animal fats, but today they constitute only an insignificant percentage of the product.

Contributions to Illinois Agriculture

The basic ingredients of margarine are vegetable oils and skim milk. The vegetable oils are mostly those of soybeans and cottonseed. These oils, after considerable processing during which both the molecular structures and the physical characteristics of the oils are changed, are mixed with skim milk, which has also been specially processed, to produce the finished margarine.

Soybean oil has assumed an increasing importance as an ingredient. In 1935, less than 1 percent of the oils used in the manufacture of margarine were soybean oils. By 1951 this figure had increased to 55 percent of all oils used. Illinois, by far the leading producer of soybeans, has benefited more than any other state from this development. About 160,000,000 pounds of this oil, or 19 percent of the State's total output, went into margarine last year.

By providing an outlet for soybean oil, margarine also helps the soybean industry in providing increased supplies of soybean oil meal as a source of protein feed for livestock and poultry. Soybean oil is produced as a result of the production of the oil meal. A substantial part of the 82 percent increase in soybean acreage between 1936 and 1951 would hardly have been feasible without the greatly increased use of soybean oil in the manufacture of margarine.

Margarine has provided additional farm markets because of the considerable quantities of skimmed milk and cottonseed oil used in the manufacturing process. Although some farmers have suffered because of the decline in butter consumption, there is little doubt that, in the aggregate, American agriculture has profited considerably from the increased consumption of margarine.

The Future of the Industry

Spokesmen for the industry feel that margarine production is still far from reaching its peak. Much of the growth of margarine sales and production in the last two years has been due to the repeal of Federal taxes and removal of state taxes and restrictions. New gains are anticipated in this quarter as the remaining states climb on the bandwagon. In addition, a rising population and increasing education of the public concerning the merits of margarine are expected to provide an expanding market.

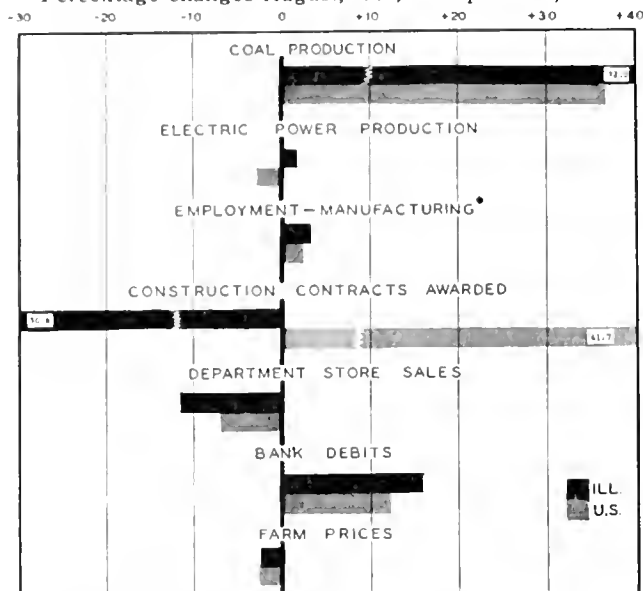
Manufacturers are not sitting back and waiting for this further expansion, however. Already processes have been developed to impart a more desirable flavor and aroma to the margarine, and to prevent foods from sticking and to reduce splattering when margarine is used in pan-frying. Much research is being done at present to improve the flavor, spreadability, and cooking and baking qualities of margarine. A reasonable degree of success in these efforts would seem to assure the future of the margarine industry.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes August, 1952, to September, 1952



*July, 1952, to August, 1952.

ILLINOIS BUSINESS INDEXES

Item	September 1952 (1947-49 = 100)	Percentage Change from	
		August 1952	Sept. 1951
Electric power ¹	136.6	+1.8	+16.3
Coal production ²	93.1	+72.2	+15.0
Employment—manufacturing ³	103.4	+3.2 ^a	+0.7 ^b
Payrolls—manufacturing	n.a.		
Dept. store sales in Chicago ⁴	96.5 ^c	-11.6	-4.1
Consumer prices in Chicago ⁵	115.2 ^d	-0.4	+2.1
Construction contracts awarded ⁶	131.0	-30.8	-3.2
Bank debits ⁷	129.3	+16.1	+11.3
Farm prices ⁸	114.5	-2.3	-4.5
Life insurance sales (ordinary) ⁹	121.3	+1.5	+20.4
Petroleum production ¹⁰	92.1	-2.9	+3.5

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.

^a July, 1952, to August, 1952. ^b August, 1951, to August, 1952. ^c Seasonally adjusted. ^d On 1935-39 base, the index was 195.9. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	September 1952	Percentage Change from	
		August 1952	Sept. 1951
Personal income ¹	273.3 ^a	+1.4	+6.2
Manufacturing ¹			
Sales	280.8 ^a	+6.8	+12.0
Inventories	43.3 ^{a, b}	+0.5	+2.9
New construction activity ¹			
Private residential	12.6	+0.5	+9.9
Private nonresidential	11.8	-0.8	-1.3
Total public	12.9	-1.3	+9.8
Foreign trade ¹			
Merchandise exports	14.6	+13.7	-1.2
Merchandise imports	10.5	+7.4	+21.6
Excess of exports	4.1	+34.1	-33.4
Consumer credit outstanding ²			
Total credit	21.7 ^b	+1.3	+12.2
Installment credit	15.3 ^b	+2.1	+15.8
Business loans ²	21.7 ^b	+3.6	+7.9
Cash farm income ³	43.2	+25.3	+7.8
Indexes (1947-49 = 100)			
Industrial production ²			
Combined index	122 ^a	+5.1	+3.2
Durable manufactures	132 ^a	+7.1	+5.2
Nondurable manufactures	113 ^a	+1.6	+1.0
Minerals	119 ^a	+10.8	+4.2
Manufacturing employment ⁴			
Production workers	105 ^a	+1.5	+0.7
Factory worker earnings ⁴			
Average hours worked	103	+1.2	+1.2
Average hourly earnings	127	+1.4	+5.0
Average weekly earnings	131	+2.6	+6.2
Construction contracts awarded ⁵	267	+41.7	+88.3
Department store sales ⁵	106 ^a	-7.0	0.0
Consumers' price index ¹	114 ^c	-0.2	+2.3
Wholesale prices ¹			
All commodities	112	-0.4	-1.5
Farm products	106	-3.2	-3.2
Foods	111	0.0	-0.4
Other	113	+0.1	-1.5
Farm prices ³			
Received by farmers	107	-2.4	-1.0
Paid by farmers	114	-1.0	+0.7
Parity ratio	101 ^d	-1.9	-1.9

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp. ^a Seasonally adjusted. ^b As of end of month. ^c On 1935-39 base, 190.8. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1952					1951
		Oct. 25	Oct. 18	Oct. 11	Oct. 4	Sept. 27	Oct. 27
Production:							
Bituminous coal (daily avg.)	thous. of short tons	358	1,387	1,508	1,513	1,672	1,938
Electric power by utilities	mil. of kw-hr.	7,696	7,681	7,698	7,665	7,625	7,234
Motor vehicles (Wards)	number in thous.	135.9	130.9	129.1	134.7	132.6	114.6
Petroleum (daily avg.)	thous. bbl.	6,461	6,450	6,441	6,438	6,431	6,257
Steel	1935-39 = 100	248.7	247.8	248.0	245.9	242.0	230.4
Freight carloadings	thous. of cars	761	838	843	852	862	864
Department store sales	1947-49 = 100	123	124	126	116	112	113
Commodity prices, wholesale:							
All commodities	1947-49 = 100	110.6	110.7	111.1	111.0	111.1	113.7
Other than farm products and foods	1947-49 = 100	112.5	112.6	112.6	112.6	112.7	114.6
28 commodities	August, 1939 = 100	282.2	284.6	287.0	288.7	290.4	329.4
Finance:							
Business loans	mil. of dol.	22,153	22,054	21,808	21,671	21,606	20,472
Failures, industrial and commercial	number	154	139	147	129	156	155

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Unemployment Drops Still Lower

The number of unemployed persons was lower in October than it has been at any time since 1945. All but 1.3 million of those who wanted jobs last month were working. In September, the previous postwar low, 1.4 million workers were idle.

Employment totaled 61.9 million in October, slightly below the September level. Agricultural employment took its usual seasonal drop, falling from 7.5 million in September to 7.3 million last month. This was about one million below the summer high and is attributed to the tapering off of harvest activity in many parts of the country. Nonagricultural employment remained approximately stable at 54.6 million with some gain in the number of factory workers apparently offset by declines in other nonfarm industries. Census data, in thousands of workers, are as follows:

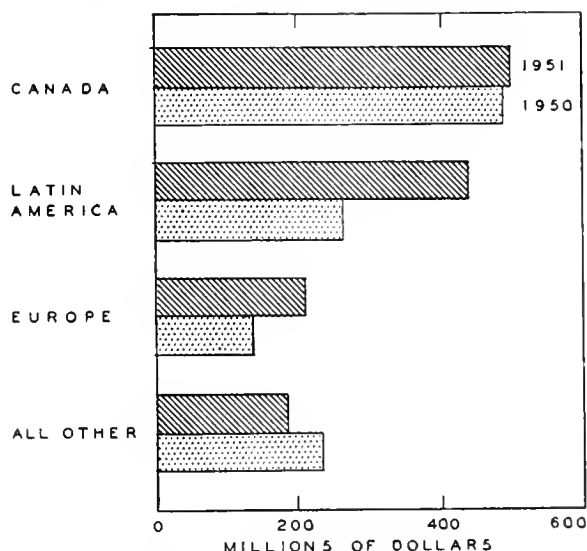
	October 1952	September 1952	October 1951
Civilian labor force	63,146	63,698	63,452
Employment	61,862	62,260	61,836
Agricultural	7,274	7,548	7,668
Nonagricultural	54,588	54,712	54,168
Unemployment	1,284	1,438	1,616

Private Foreign Investments High

The outflow of private capital from the United States, including direct investment and earnings reinvested in foreign subsidiaries, reached a record amount of \$1.7 billion in 1951. A \$260 million rise in reinvested earnings more than offset a drop of \$100 million in direct investment during the year. Outflows of direct investments for the first half of 1952 were at a record \$560 million and are likely to be well sustained during the second half of the year.

The industrial distribution of these investments was more diversified in 1951 and 1952 than in earlier postwar years, with relatively less capital going to the petroleum industry, and more going to manufacturing, distribution, and mining and smelting. Nevertheless, about two-thirds of new foreign investment in 1951 went to petroleum and manufacturing industries.

PRIVATE OVERSEAS INVESTMENTS



Source: U. S. Department of Commerce.

As the accompanying chart shows, most of the new investment from the United States in 1951 remained in the Western Hemisphere. Direct investments plus reinvested earnings in Canadian businesses amounted to about \$500 million. Much of the new direct investment in Canada is in the development of mineral and forest wealth, but manufacturing investments were still much larger than those in other industries at the end of 1951. There was also a decided increase in the amount invested in Latin America in 1951 and the first half of 1952.

Investments outside the Western Hemisphere were not large in 1951. The most significant activity was the continued development of petroleum refining capacity in Western Europe and the Far East. Additions to manufacturing investments in Europe were also steadily maintained, largely through reinvested earnings.

Second Quarter Savings

The liquid savings of individuals, which include currency holdings, savings in insurance, and purchases of securities, fell to \$1.7 billion during the second quarter of 1952. This compares with liquid savings of \$2.6 billion in the first quarter of 1952, and \$3.0 billion in the second quarter of 1951. However, because first quarter 1951 savings amounted to only \$100 million, total liquid saving during the first six months of 1952 exceeded the first half of 1951.

Insurance again constituted the largest single component of liquid saving in the second quarter, amounting to \$2.0 billion. Other large investments were in time and savings deposits, which increased by \$1.1 billion, and shares in savings and loan associations, which rose \$800 million. In addition, individuals absorbed \$600 million net of new security issues. This was less than in the two preceding quarters but was still substantially above the rate of saving in this form prior to 1951.

These items of saving were partially offset as individuals reduced their equity in Government securities by about \$800 million, and added \$1.4 billion to their mortgage indebtedness and \$1.3 billion to other consumer debt, particularly installment credit.

Dividends Up

Cash dividend payments by American corporations issuing public reports amounted to \$1.2 billion in September, 1 percent higher than in the same month last year. Scattered declines in extra and special dividends tended to restrain the September rise relative to September a year ago.

Manufacturers' disbursements amounted to \$755 million in September, 1 percent less than was paid out in September, 1951. Most manufacturing industries reported decreased dividends, but in the oil refining industry payments were 10 percent higher than in 1951. Payments of nonmanufacturing industries rose 4 percent, the bulk of the rise being centered in railroads and utilities. A moderate decrease recorded in trade and finance disbursements resulted primarily from irregular dividend action by several major firms.

For the first nine months of 1952, publicly reported cash dividends aggregated \$5.8 billion, 4 percent more than in the corresponding period of 1951. Manufacturers' payments totaled \$3.2 billion, with oil refining continuing to register the largest dollar and percentage increases. In the nonmanufacturing section, total dividends advanced

to \$3.1 billion, 5 percent higher than in the first nine months of 1951.

Manufacturers' Sales Increase

Manufacturers' sales rose to a seasonally adjusted \$23.4 billion in September, 7 percent above the August level. Sales of durable goods manufacturers were up 9 percent, with all industries in the group participating in the rise. However, motor vehicle and nonelectrical machinery producers accounted for more than half of the increase. Sales of nondurables advanced about 5 percent, with most of the rise occurring in the food and petroleum industries.

New orders exceeded deliveries in September by about \$300 million. An increase of \$200 million in backlogs for producers of nondurables continued the upward trend started in the early summer, and a very moderate rise in unfilled orders for durables brought backlogs for heavy goods producers to a new high.

Manufacturers' inventories rose slightly during September, most of the increase being in soft goods inventories, chiefly beverages. Durable goods inventories remained stable, as minor increases in the steel and automobile industries were offset by declines in other industries.

Construction Expenditures Drop Slightly

Expenditures for new construction dropped slightly to \$3.0 billion in October, \$100 million below the September level. The decline was less than expected for this time of year, as private and public building expenditures both held nearly even with the September volume at \$2.0 billion and \$1.0 billion, respectively.

In the private sector, outlays during October for non-farm dwellings accounted for half the total, or approximately \$1.0 billion. Among the various types of private nonresidential construction there was some increased spending for schools, churches, and commercial and in-

dustrial buildings during the month. The total was held steady, however, as public utility construction declined 5 percent, largely because of declines in new work for electric light, power, and gas utility companies.

As shown by the accompanying chart, total new construction outlays for the first ten months of this year were substantially above outlays for the same months of 1950 and 1951. The big factor in this increase has been the growth of public expenditures during those months. However, spending by private builders has been running above 1951 levels since April, and close to the record expenditures of August, September, and October, 1950.

Military Deliveries About Steady

Because of material shortages caused by the steel strike, military deliveries were limited to \$7.7 billion during the third quarter of this year. According to Director of Defense Mobilization Harry H. Fowler, this was slightly above the second quarter level, but below scheduled rates for the period. This temporary leveling in output interrupted the steady climb in military deliveries that has occurred since the third quarter of 1950.

Funds appropriated for military procurement and construction, including military aid, amounted to almost \$129 billion by the end of the third quarter. This included new funds made available by Congress in July, money appropriated since Korea, and funds on hand but unexpended prior to the beginning of hostilities. Of the \$129 billion, an estimated \$107 billion is for aircraft, tanks, ammunition, and other hard goods, \$12 billion for soft goods, and \$10 billion for construction. About \$99 billion in military procurement and construction contracts had been placed by the end of September. Estimated deliveries totaled \$41 billion.

World-Wide Respite From Inflation

(Continued from page 2)

higher production; but the potential pressure of purchasing power on prices is stepped up.

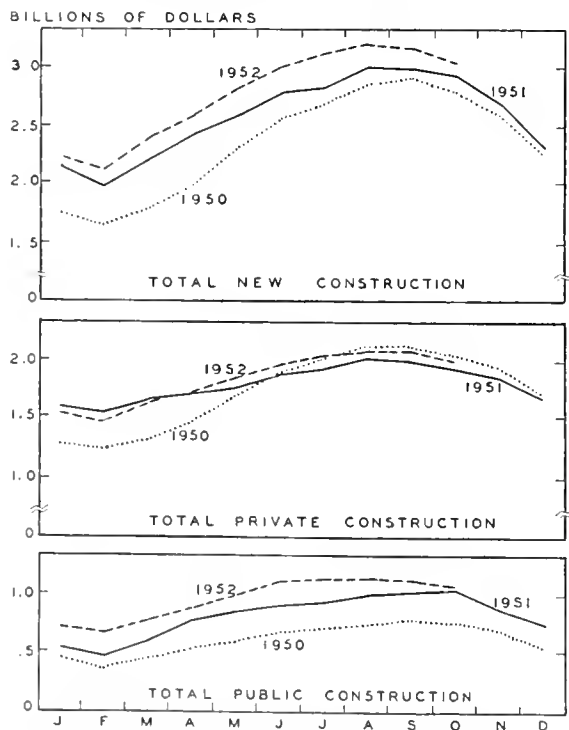
In Germany, the willingness of a defeated people to accept hard work and low standards of living seems to be nearing an end. Real wages are moving up, and the expansion of consumer demand seems likely to accelerate.

The Economic Commission for Europe recently issued a report summarizing the position of Europe as a whole. It indicates that effective action for eliminating dollar deficits has not yet been taken. Improvement in the reserve position of the countries of Continental Europe has been at the expense of the gold reserves, first, of the European Payments Union and later, of Britain and France, and therefore cannot continue. Furthermore, expansion of industrial production has slowed; and policy has been able to accomplish little or nothing as an offset to the forces that dominate the slowdown. In brief, no solution of the twin problems of inflation and dollar deficits is yet in sight.

Currently, however, the armaments race continues to impose inflationary pressures. Both directly and indirectly, rearmament draws resources away from production and restricts supplies of goods available for export and consumption. Contributions to mutual defense impose a heavy burden on peoples whose production is hardly adequate to their other needs. That is the reason United States assistance will be called for as long as present conditions prevail.

VLB

CONSTRUCTION TRENDS



Sources: U. S. Depts. of Commerce and Labor.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Size of American Households Declines

American households are steadily getting smaller. Despite a record number of births, the size of the average family has declined sharply since 1947. The relatively high postwar marriage rate, establishing a substantial number of new family units, has exceeded the rate of population growth. At the same time the high level of economic activity, especially housing construction, has enabled some married couples and other persons, particularly those in their later years, to live in their own homes instead of with relatives or nonrelatives. Since members of the armed forces were not included unless they lived with their families, the expansion of our military strength has tended to further reduce the population in households. The result is that the average size of the household has shrunk from nearly five persons in 1890 to 3.7 in 1940, to 3.6 in April, 1947, and to 3.3 persons in April, 1952.

Households in urban areas, averaging 3.2 persons in 1952, tend to be smaller than those in rural areas, which averaged 4.0 persons. Since 1950, families living on farms have represented a smaller proportion of all households than at any other time in our history.

Share Ownership in the United States

About 6,350,000 individuals own shares in American corporations. Forty-six percent of this number, however, own stock in only one company; in many cases this is the result of an employee stock-ownership plan or a stock sale promotion to consumers. Only 8 percent of all share owners hold ten or more issues. These findings are revealed in a recent book by Lewis H. Kimmel entitled *Share Ownership in the United States*, published by the Brookings Institution. List price of the paper-bound book is \$1.50.

The study also shows that manufacturing companies claim the largest number of shareholders, 47 percent. Public utilities are second; banking, finance, and insurance firms, third; the petroleum industry, fourth; and transportation companies, fifth. A breakdown of stockholders by occupation discloses that 45 percent of administrative executives are share owners whereas 19 percent of operating supervisory officials, 13 percent of professional workers in technical fields, and 12 percent of those who render personal services (such as doctors and lawyers) own shares.

Consumer Uses of Funds

The ways consumers dispose of available funds (obtained from personal income, borrowing, and sales of assets) reflect a wide range of personal needs and preferences, according to a study published in the September, 1952, issue of the *Federal Reserve Bulletin*. Expenditures for nondurable goods and services account for the largest part of all consumer uses of funds, about 68 cents out of each dollar in fiscal 1952. Durable goods were back to the prewar level, amounting to a little less than 10 cents. Capital outlays for new homes and savings took an additional 10 cents, with the remainder going to personal taxes.

There were two principal differences in the pattern of consumer use of funds after the war, as is shown in the

accompanying chart. A substantially larger part of the total was paid out in personal taxes and a smaller part was used for purchases of services and nondurable goods. The rise in personal tax payments reflects higher income taxes carried over from the war period as well as higher levels of employment and income. The smaller proportion of funds used for services reflects mainly the relatively slow rise in utility prices and the continuation of rent controls in many areas after the war. Expenditures for nondurable goods rose temporarily in early postwar years partly because of sharp increases in food and apparel prices, but have constituted a smaller proportion of total use of consumer funds in the postwar period.

Paint Insecticide Mix

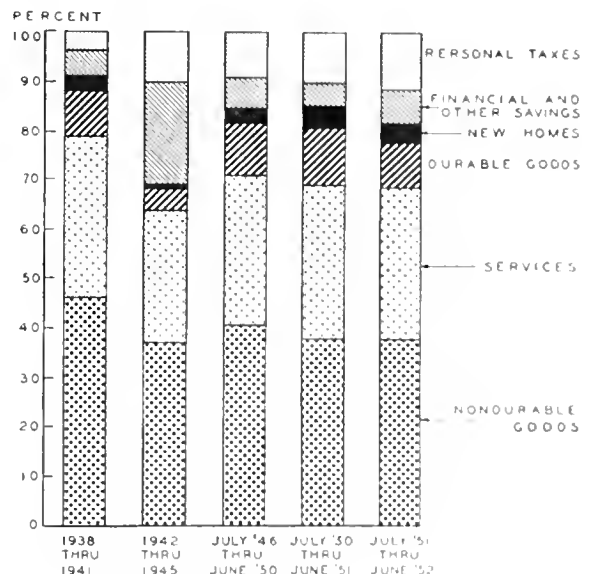
A paint insecticide mix designed to kill roaches, flies, mosquitoes, and other pests has been developed by the Holloway Industrial Products Company, Inc., 550 Fifth Avenue, New York 36, N.Y. The product can be applied to walls, ceilings, and shelves, and is said to be effective for the life of the paint. Called "Holowak No. 333," the insecticide is an odorless powder that can be mixed with any type of water, oil, or dry paint with semi-gloss, gloss, or satin finish. It will not harm human beings or animals, according to company spokesmen.

Oversize Battery

A new oversize automotive battery featuring "industrial type" construction has been developed by Gould-National Batteries, Inc., St. Paul, Minnesota. Company officials claim a life expectancy of five years or more in normal car use and 70 percent additional starting power at zero rated capacity. Because of its great capacity, the water in the battery requires checking only every 5,000 miles.

Most makes of cars will be able to use this battery since there are special hold-down clamps which come with the product.

DISPOSAL OF CONSUMER FUNDS



Source: Federal Reserve Board

CONSTRUCTION PROSPECTS FOR 1953

ROBINSON NEWCOMB, Office of Defense Mobilization*

An active economy generally means high investment activity and a high volume of construction. That is true this year and it looks very much as if it would be true next year. It is currently estimated that construction will reach a total of \$32.3 billion this year—or in the range of \$32 billion to \$32.5 billion. It looks as if the volume next year will approximate \$33 billion, with a probable range of \$32 billion to \$34 billion.

This estimate is based on the view that 1953 will be a prosperous year, though tending to level off in the second half. In other words, economic difficulties are not expected before the end of 1953 unless declines in security expenditures and in inventory accumulation produce a quick reversal. Should the economy hold up well through the first three quarters, commitments for construction will have gone so far that it will be difficult to reduce them appreciably. Should fears appear in the third quarter, even though the economy is going at a good clip, enough commitments could be cancelled to affect fourth quarter volume to a limited degree.

Private Nonresidential Construction

Judging by present trends, it looks as if nonresidential construction would hold this year's levels. Industrial construction will drop somewhat, though it may remain above 1948-51 levels. The repeated predictions that business was going to cut its investment sharply have not been borne out. Industrial contracts for the month of September, the last month for which data are available, were down only about 15 percent from the preceding year, after excluding Atomic Energy contracts.

Total industrial contracts for the nine months ending September, 1952, were down only about one-sixth from the volume of the preceding year. Even when the Atomic Energy contracts included in these totals are eliminated, industrial contracts have held up surprisingly well. As a matter of fact, nonresidential building contracts as reported by Dodge for the first half of October were 45 percent above the same period of the preceding year.

New construction of steel, automobile, textile, chemical, and miscellaneous plants may be down some, but there apparently will be increases in other areas so that the total will still be a relatively high figure.

Commercial construction may rise more than is indicated in the accompanying table. Regulation X, which has been abolished only recently, discouraged commercial construction by small firms particularly. A large chain organization, for instance, could arrange for complete financing of new construction by an insurance company, and then lease the buildings without any down payment. But smaller concerns in general could not evade the restrictions as successfully. The relaxation of Regulation X will therefore release backlogs as well as aid in meeting the current needs of 1953.

The probable relaxation of direct controls, which affected commercial building more than most other types of construction, will also free demands in this area in 1953. Miscellaneous types of construction will tend to increase along with commercial, and the increases in

these two sectors should about balance the probable decline in industrial construction activity.

Utility construction is also continuing to rise, and with the freeing of materials in 1953, should continue high. No change is assumed for farm construction, though there may be some shift of expenditures from equipment to construction.

Residential Construction

Total residential activity will be reported as about \$11 billion this year. The pressures behind the building of houses is beginning to slacken, but it is not vanishing. The number of married couples with their own households increased by over 1,250,000 a year in 1947 and 1948, but by only about 700,000 in 1951. The total number of households increased by 1.4 million to 1.5 million per year from 1947-49, but by only about 900,000 in 1951. The percentage of married couples reported as without their own households (that is, doubled up) was 6.8 for April, 1940, and 8.6 for April, 1947, but only 4.2 in April, 1952. All this points up the fact that the demands flowing from increases in the number of new families formed and from undoubling are at much lower levels than they were.

The demand from now on must be supported by rehousing of families, not just by additions to the number of families—by raising housing standards, not just by supplying housing. Increasing numbers of families with children who were able to live in one- and two-bedroom houses are now either remodeling or seriously considering moving to larger quarters. In either case sizable expenditures are involved. There was a period when expenditures for fixing up existing houses approximated the expenditures on new housing. That period may be past. Nevertheless, expenditures on existing housing will run very high next year. And the unit costs on new construction may be higher than this year as the emphasis shifts to better and larger houses.

Even though the volume of starts reported by the Bureau of Labor Statistics may drop below a million, and possibly as low as 900,000, this will be countered to some

CONSTRUCTION PROJECTIONS

(Billions of 1952 dollars)

	1952	1953
TOTAL	32.3	33.0
Private	21.7	21.0
Residential	11.0	10.0
Nonresidential	4.9	5.0
Industrial	2.3	1.9
Commercial	1.1	1.3
Other	1.6	1.8
Farm	1.7	1.7
Utility and other	4.0	4.3
Public	10.6	12.0
Residential .....	.6	.6
Nonresidential	4.1	4.5
Industrial	1.6	1.9
Educational	1.6	1.7
Hospital .....	.5	.5
Other .....	.4	.5
Military	1.4	1.7
Highways	2.7	3.0
Sewers and water .....	.7	.8
Conservation .....	.8	.9
Utilities and other .....	.3	.4

* This article represents the personal views of the author and not necessarily the official views of any government agency.

extent at least by increased remodeling and by higher average costs of new structures, so that total expenditures may well exceed the \$10 billion suggested for 1953 in the attached table.

It is quite probable that if expenditures on remodeling and repair were adequately reported, the total for 1953 might exceed \$11 billion. There is a big gap in our reporting system for this type of expenditure. Forecasts must therefore be made with an eye toward what the reporting system will uncover as well as with an eye toward what the facts may be. This is not meant in any sense as derogatory to those handling the reporting. They are working under severe handicaps as to funds and staff. Given adequate resources their reports would leave no uncertainty of this kind.

Combining these two projections for private nonresidential construction and for private homebuilding yields an estimated total of \$21 billion of private expenditures in 1953, as compared with approximately \$21.7 for 1952.

Public Construction

Public construction will probably rise more than private building declines. There will be an appreciable increase in public industrial construction, an increase almost matching the decrease in the private industrial sector. It looks as if this category, which is mostly Atomic Energy construction, may approximate \$1.9 billion in 1953. For the first time in peacetime history, public industrial construction will approximately equal private industrial construction. This is a significant fact for the body politic as well as the construction economy.

Educational construction will increase slightly. The need for added school space has been broadcast so widely that there is no reason for dwelling on it here. The relaxation of controls, the easing of materials, the increased income of state and local governments, and the increasing willingness of taxpayers to assume bonded indebtedness to finance the construction of school buildings are supporting a slowly rising volume of expenditures in this area and will probably continue to support a rising volume for some time to come.

Hospital construction may not increase very much in 1953. The change in the subsidy arrangements in the Hill-Burton Act have resulted in a lower ratio of non-Federal to Federal funds. A given Federal grant, therefore, results in a smaller volume of hospital construction. The argument for this is the belief that although fewer hospitals do go up, they are more sorely needed than would be the case under the older arrangement. Poorer communities without facilities are aided under the new arrangement before richer communities which have facilities and which at least theoretically are better able to finance additions to these facilities themselves.

The emergency needs for hospital service are being met in part by more efficient use of hospital space and by more out-patient care. Modern drugs and therapy are cutting the average bed-days per patient, thereby permitting treatment of more patients per year per bed than was possible even five years ago. Despite this increased efficiency of hospital use, there is a big backlog of demand here, and the volume of hospital construction should rise slowly for some time in the future.

Military construction has been somewhat slow in getting under way. It was expected earlier that there would be \$1.8 billion of such expenditures this year. The total will apparently fall below \$1.5 billion. A good deal of that which was not done this year will apparently be

pushed into next year so that the volume will rise. Congress and the Secretary of Defense will, of course, be watching expenditures in this area very closely and it is possible that the rise will not be as great as forecast. This is an area in which the data are not very precise and judgments rest on even poorer foundations than in some other segments. However, the errors in terms of gross magnitude may be small although percentagewise they may be sizable.

Highways and Community Facilities

Highway construction may be on a rising trend for many years to come. The more complex the economy, the more transportation it needs. Our highways have not been growing with our economy. Expenditures on highways tend to be classed as public expenditures, not as service expenditures or expenditures for capital facilities. Despite the growth in the civilian aspects of the economy, highway construction was held down for fiscal reasons. We encouraged expansion of other types of facilities but failed to realize that the goods that were produced had to start or end their trips over highways in nearly all cases. The result has been such a great increase in highway congestion that demands for more adequate facilities are breaking through the handicaps imposed by fiscal and other limitations.

In some areas tolls are being used as a device for raising funds, in others bond issues are being used, and in still others current revenues are being made available in larger volume. Even the handicaps to highway construction imposed in 1951 and 1952 by material shortages have been reduced. Cement is being used increasingly in place of structural steel for short spans, and by one device or another highway work is progressing even though structural steel consumption is restricted. The projected \$3-billion rate for 1953 will be about the largest volume in history but it will be relatively low in relation to the amount of traffic the highways will carry. We can therefore expect expenditures in this area to rise not only in 1953 but in succeeding years.

Requirements for sewer and water facilities are growing, too. Difficulties in raising funds and limitations imposed by the war and post-Korea shortages have prevented municipalities from expanding their sanitary facilities as rapidly as either their population or the demands upon their resources have grown. The lowering of the water table, the increased industrial use of water, and the increased attention being paid to stream pollution will result in a rise in the level of expenditures in this category.

It is not expected that other areas will rise very much. Absolutely the rise will be small, though relatively it will be sizable. Increased demands for electricity, for instance, have stimulated expansion of hydroelectric programs and expenditures for public utilities. This stimulus will continue through 1953 and probably into later years.

In general, the public sector looks strong for 1953 and for many years thereafter. Publicly controlled enterprises are becoming an increasingly important factor in the economy. Provision for these facilities has lagged behind that for privately financed facilities but the economy cannot continue to grow without water, sewers, and roads; and our standards of living and our democratic way of life will be restricted without increasing expenditures for schools. Even should the rest of the economy hesitate, public construction will be a vigorous segment of total business in 1953.

LOCAL ILLINOIS DEVELOPMENTS

On the whole, business activity in Illinois improved in September. Coal production increased sharply and steel production in the Chicago area rose to 1,902,540 net tons, up 4.6 percent from the August level and 3.9 percent above last September's output. Chicago district mills operated at 104.4 percent of capacity in September as compared with the national rate of 101.9 percent.

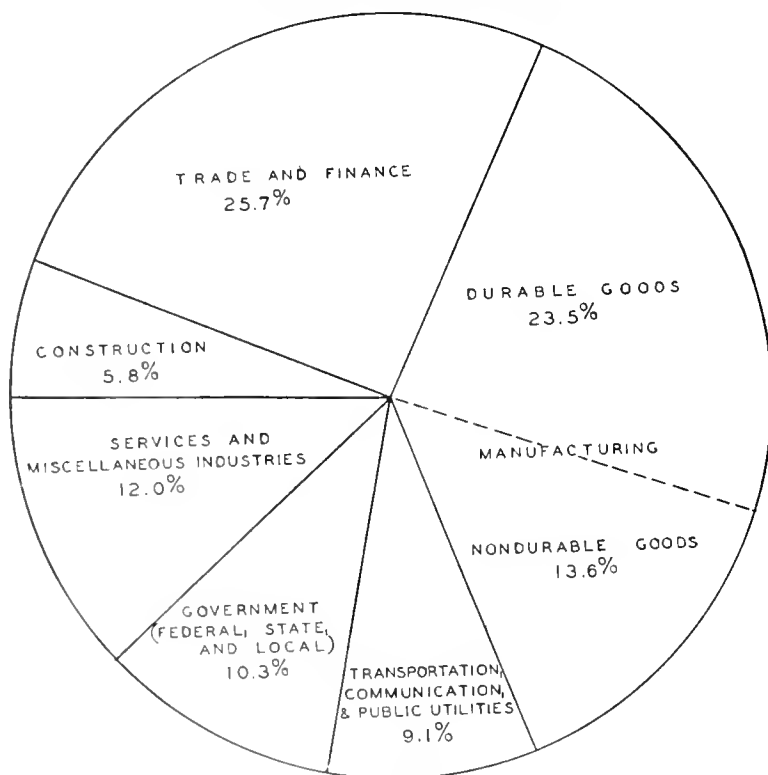
For the first time since February, consumer prices registered a slight decrease as food and housefurnishing prices moved lower. The composite index on September 15 stood at 195.9 percent of the 1935-39 base, 0.5 percent below the August figure but 2.1 percent above a year ago.

Distribution of Nonfarm Labor Force

Over 3.3 million people were employed in Illinois in nonfarm occupations in August, more than in any previous month of 1952. Total nonagricultural employment was 1.2 percent above a year ago. Increases in construction, manufacturing, trade, service, and miscellaneous industries were chiefly responsible for the gain.

Manufacturing concerns employed 1.2 million workers or nearly 40 percent of the total, as is seen by the accompanying chart. It is interesting to note that durable-goods manufacturing firms employed 50 percent more people than those industries manufacturing nondurable goods. Representing the second largest section of the labor force were the wholesale and retail trades, which employed 691,300 persons in August, or one out of every four. The Federal, state, and local governments and transportation, communication, and public utilities each accounted for approximately 300,000 workers.

ILLINOIS NONAGRICULTURAL EMPLOYMENT



Source: Illinois State Employment Service.

Coal Production High in September

Illinois coal production in September totaled 4,445,356 tons, the largest output since January and 15 percent more than that of September, 1951. Franklin County produced 19.5 percent of the total, employing 4,541 men.

September was one of the few months this year when full mining operations were carried on. Strikes for higher wages and more benefits substantially cut production for the first nine months of 1952, to a level 14.3 percent below the corresponding months of last year. October output will probably be low also since miners went out on strike once to get a daily pay increase and again to keep the Wage Stabilization Board from reducing the gain.

Retail Sales Increase

Total retail sales in Illinois were estimated at \$693 million in July, 6.5 percent lower than in June but 3.2 percent above July, 1951, sales. Most of the advance can be traced to an additional trading day compared with a year ago. Filling stations reported increases of 11 percent, and similar gains were registered by furniture dealers and eating and drinking establishments throughout the State. Cumulative retail sales for the first seven months registered a gain of only 0.6 percent.

Construction Contracts Decline Seasonally

Total construction in Illinois, valued at \$69.6 million in September, was down 30.8 percent from August and 3.2 percent from a year ago. The cumulative value of contracts let during the first nine months, however, ran 7.3 percent ahead of the corresponding period in 1951 as a result of large gains in public works and utilities construction.

Affected most by the seasonal downturn beginning in August were nonresidential contracts, which showed a major decline in awards for manufacturing and educational buildings. Public works and utilities were off 32 percent even though the largest single award in September was a Cook County highway construction project valued at \$2 million. Residential construction was down 17 percent.

Crop Prospects Good

While many Midwestern states suffered serious losses of valuable crops because of the drouth, Illinois farmers were for the most part helped more than hurt. Corn matured quickly, enabling farmers to begin harvesting two weeks earlier than usual. The indicated corn crop of 516 million bushels is the second largest on record and 5 percent larger than last year's 492 million bushels. The dry weather also helped farmers harvest a good soybean crop.

Prices received by the Illinois farmer in October averaged 2.4 percent lower than those he received in September and 6.8 percent lower than prices received a year ago. Except for corn (off 17 cents) and wheat (off 8 cents), prices for most crops were higher than a year ago. But October prices for livestock in Illinois were down substantially from last year as a result of high cattle marketings.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

September, 1952

	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS	\$24,285 ^a	867,362 ^a	\$480,120 ^a		\$11,300 ^a	\$12,461 ^a
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{+30.8 +8.2	{+2.7 +1.4	{+5.1 -0.8	{+16.1 +11.3	{+6.5 +14.3
NORTHERN ILLINOIS						
Chicago	\$17,217	676,135	\$346,980		\$10,255	\$10,967
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{+31.8 +5.7	{+2.2 +0.9	{+6.0 -4.4	{+16.5 +11.5	{+6.7 +13.5
Aurora	\$ 435	n.a.	\$ 6,900		\$ 44	\$ 89
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{+103.3 -3.5	{+0.3 +3.7	{+1.2 -3.8	{+1.8 +4.9	{+2.9 +6.5
Elgin	\$ 258	n.a.	\$ 5,102		\$ 29	\$ 92
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{-31.6 -33.3	{+5.8 +3.1	n.a.	{+5.5 +1.1	{+6.2 +13.2
Joliet	\$ 672	n.a.	\$10,076		\$ 55	\$ 80
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{+26.6 +62.7	{+3.7 +5.4	{+5.3 +2.4	{+6.5 +10.8	{+26.1 +31.5
Kankakee	\$ 204	n.a.	\$ 4,715		n.a.	\$ 33
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{+26.7 +7.9	{-1.6 +7.6	{+19.6 +16.0		{+20.5 +18.9
Rock Island-Moline	\$ 953	14,823	\$ 9,261		\$ 35 ^b	\$ 118
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{+6.2 -45.8	{+0.4 -10.9	n.a.	{+8.7 +6.3	{-21.7 +1.0
Rockford	\$ 909	27,606	\$14,873		\$ 129	\$ 149
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{+41.1 -30.4	{+0.9 +17.6	{-7.2 -11.0	{+0.7 +3.8	{+4.3 +11.2
CENTRAL ILLINOIS						
Bloomington	\$ 397	6,063	\$ 5,115		\$ 56	\$ 101
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{+113.4 +203.1	{+4.1 +7.8	n.a.	{+7.6 +19.7	{-2.7 +32.2
Champaign-Urbana	\$ 572	7,135	\$ 6,463		\$ 52	\$ 81
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{+56.7 +41.6	{-0.8 +10.1	n.a.	{+17.5 +11.3	{+30.1 +22.5
Danville	\$ 194	7,889	\$ 5,704		\$ 41	\$ 49
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{+0.5 -9.3	{+6.5 +2.0	{-4.0 +0.5	{+0.1 -0.7	{+8.3 +11.1
Decatur	\$ 192	19,378	\$ 9,215		\$ 101	\$ 99
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{-46.2 -32.4	{+3.0 +16.4	{+1.7 +1.8	{+42.4 +27.2	{+6.1 +29.9
Galesburg	\$ 274	5,389	\$ 3,812		n.a.	\$ 31
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{+32.4 +73.4	{+10.5 +10.8	n.a.		{+17.5 +31.2
Peoria	\$ 692	44,328 ^c	\$16,265		\$ 208	\$ 199
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{+73.9 -9.2	{+7.6 +72.6	{+0.5 +7.7	{+20.6 +9.5	{+11.3 +30.3
Quincy	\$ 254	6,729	\$ 4,549		\$ 35	\$ 65
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{+23.3 -41.9	{-6.5 +4.3	{+2.0 -5.0	{+1.2 +8.5	{-8.6 +21.1
Springfield	\$ 634	23,534 ^c	\$13,025		\$ 91	\$ 196
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{+128.0 -16.6	{-6.4 +7.3	n.a.	{+11.8 +8.4	{+9.1 +22.3
SOUTHERN ILLINOIS						
East St. Louis	\$ 376	12,197	\$ 9,345		\$ 138	\$ 53
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{-9.2 +40.3	{-7.4 +5.2	n.a.	{+16.4 +1.3	{-7.0 +23.1
Alton	n.a.	10,875	\$ 4,643		\$ 32	\$ 24
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{-8.9 -1.1	{+8.4 +7.4	n.a.	{+3.6 +15.4	{-7.6 +6.6
Belleville	\$ 52	5,282	\$ 4,070		n.a.	\$ 34
Percentage Change from.....	{Aug., 1952..... Sept., 1951.....	{-37.3 -37.3	{+1.9 +8.6	n.a.		{+8.9 -9.5

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for August, 1952, the most recent available. Comparisons relate to July, 1952. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

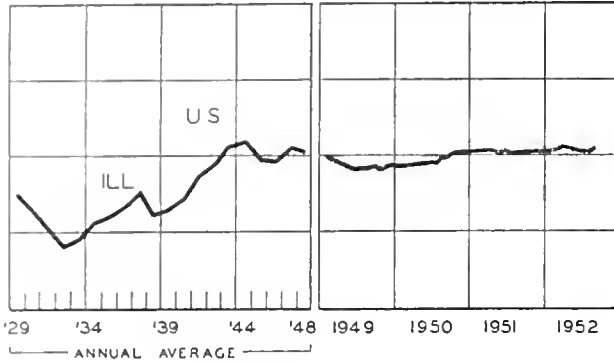
^c Includes immediately surrounding territory.

n.a. Not available.

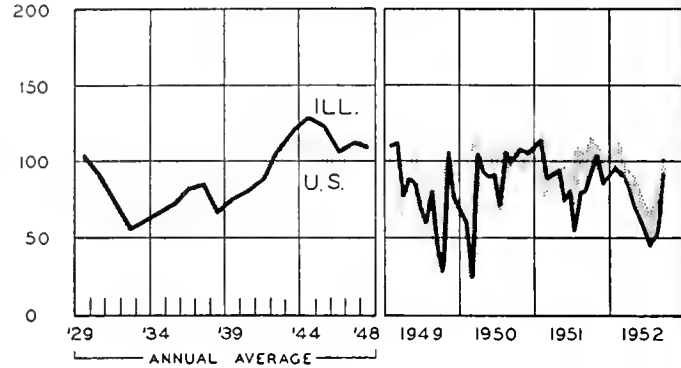
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

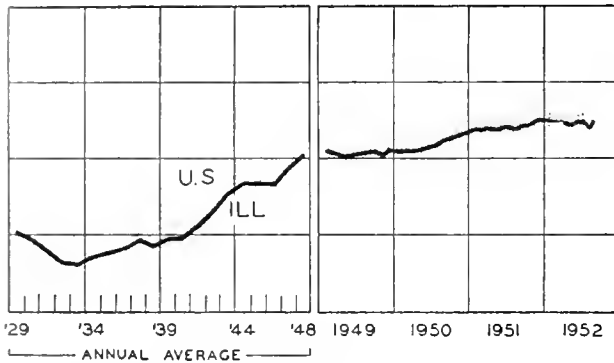
EMPLOYMENT — MANUFACTURING



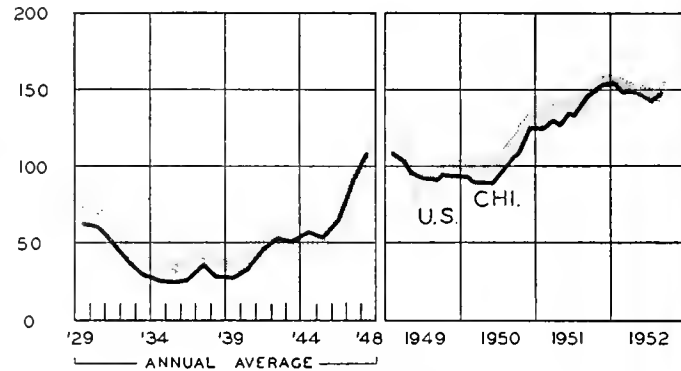
COAL PRODUCTION



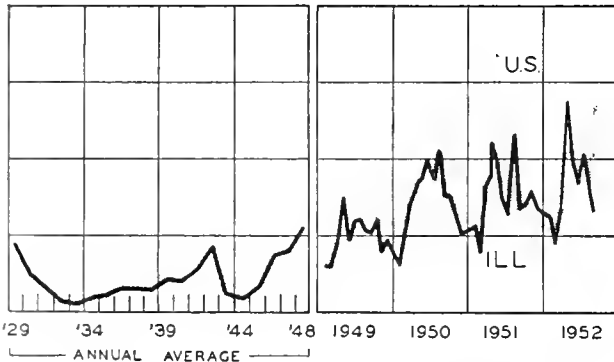
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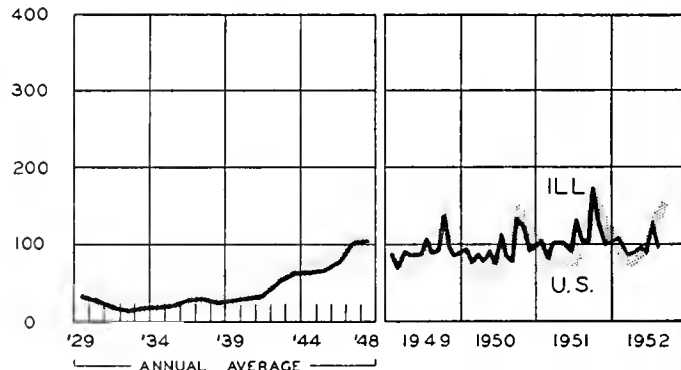
BUSINESS LOANS



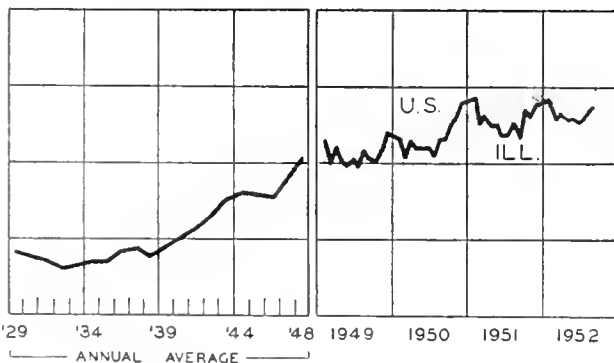
CONSTRUCTION CONTRACTS AWARDED



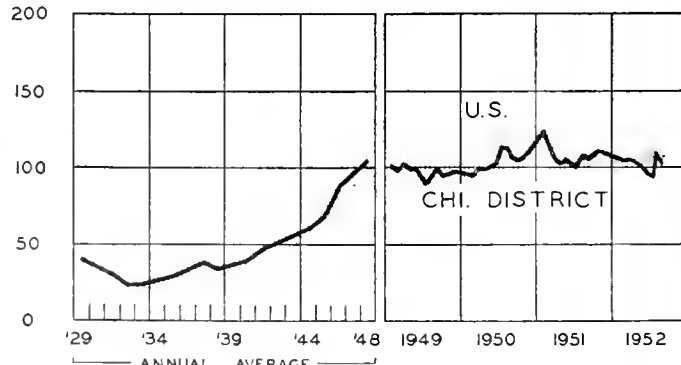
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



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HIGHLIGHTS OF BUSINESS IN NOVEMBER

Spurred by rising sales and defense orders, the output of the nation's mines and factories reached a new postwar high in November. The Federal Reserve index of industrial production is estimated to have risen 2 points above the October level to 229 percent of the 1935-39 average; this is 9 points above November of last year. Steel mills operated at a record 106 percent of capacity throughout the month, which corresponds to about 2.2 million tons of iron and steel from castings weekly. Output of other metals was maintained at high levels, and television production rose to a rate of nearly 10 million sets a year.

In view of this rising activity, it is not surprising that total civilian employment reached a new high for the month of November at 62.2 million, solely on the strength of a sharp rise in nonfarm employment.

Wholesale Prices Continue Decline

It is a tribute to the productive capacity of our economy that wholesale prices have not risen despite heavy civilian and military demands. The Bureau of Labor Statistics comprehensive index of wholesale prices during most of November was somewhat lower than the 111.2 figure for October (1947-49 = 100). Price declines were greatest in farm products and processed foods.

For the first time since the outbreak of fighting in Korea, the parity ratio dipped below 100. In the month ended November 15, prices received by farmers for meat animals, cotton, fruit, and corn declined. Prices paid by farmers declined also, but not so much, with the result that the parity index, the ratio of prices received to prices paid, dropped one point to 99. Last November, it was 106.

Manufacturers' Sales at Peak

Manufacturers' sales this fall were the highest in history. On a seasonally adjusted basis, the sales of manufacturers in September equalled the previous peak of \$23.7 billion set in May, 1951, and in October rose to a new high of \$24.5 billion. Pacing the rise were increased shipments of fabricated metals, transportation equipment, and lumber among durable goods; and of apparel, food, and chemicals among nondurable goods.

At the same time, new orders received by manufacturers in October reached the highest point of the year, 3 percent above both the preceding month and October, 1951. This development, plus the past year's reduction of re-

tailers' stocks (chart, p. 6), would seem to augur a continuing high demand for manufacturers' wares.

Stock Market Moves Up

After fluctuating within a relatively narrow range since July, 1951, industrial stock market prices began to surge upward the week after Election Day and continued to rise during the remainder of the month. By the month's end, the Dow-Jones industrial average was up to 284 and was still rising, "breaking through" the previous bull-market high of 282.4 established last August and reaching the highest point since April, 1930.

Various reasons are advanced to explain the upturn. Principal among them are the favorable business climate expected under General Eisenhower's administration, the unusually good business being experienced by retailers and manufacturers alike, and the continuing high level of private and government expenditures. Because of these factors, it is asserted, investors have been instilled with new confidence in continuance of present prosperity.

Construction Outlook Bright

Expenditures for new construction in 1953 are expected to set a new record, perhaps as much as \$1 billion over the indicated \$32.7 billion total for 1952. This latest government forecast assumes no major change in the international situation, plentiful supplies, a continuing high level of business, and relatively stable prices.

Expansion both in public and in private expenditures is foreseen. Public construction is expected to rise the most, by 6 percent to \$11.3 billion, with the advance resulting as much from increasing activity in civilian projects as from expanding military programs. Attempts by the states to catch up with the tremendous growth in the school-age population and automobile ownership, together with increased Federal aid, will boost both public school and highway building nearly 10 percent.

The main factors contributing to an expected 2 percent rise in private construction (to \$22.2 billion) are a continuing high level of housing activity and expanded public utility and commercial building. More than one million private dwelling units may again be started in 1953. Unprecedented expenditures approaching \$4.3 billion are indicated for 1953 by public utilities, and an increase of nearly one-fourth is anticipated in commercial building.

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No Easy Solution

At the close of his recent trip to Korea, President-elect Eisenhower stated that he had found "no panaceas, no trick solutions." It is a statement that may well be generalized to cover a good many of the world's unsolved problems—including Western Europe's twin problems of inflation and dollar deficits discussed here last month.

Innumerable solutions for these economic problems have been proposed. Such solutions are, however, more easily proposed than carried out. They usually conflict with each other or with basic objectives of national policy; and attempts to carry them out prove impractical in the light of existing political conditions.

Efforts to Increase Production

It has been widely recognized that the most satisfactory solution lies in getting increased production from available resources. Since labor forces are generally limited, attention is commonly turned toward increasing productivity. In this field alone, numerous plans have been tried. Foreign missions have been invited to inspect our plants. We in turn have sent teams of experts to teach them our methods. Unfortunately, this transfer of technology has not proved as helpful as was hoped. Most countries have neither the capital nor the mass markets needed to make the adoption of our methods practical.

Even to the extent that practical improvements were made known, it has not always been possible to put them into effect. To increase production it is necessary to improve facilities, and the re-equipping of any industry is a costly process. Expenditures for this purpose necessarily add to the burden of competing demands, and thus to inflationary pressures. Recognizing that the burden was at least temporarily overwhelming, the Marshall Plan was specifically designed to provide resources needed for reconstruction. Its effectiveness toward this goal cannot be denied, but too often the funds provided had to be used to meet current emergency needs and contributed nothing to expansion programs.

All this is not to say that nothing has been accomplished. Indexes of production show that Europe is turning out a third more than before the war; and further advances are being made however halting and long-drawn-out the process of expansion may be. A fact that frequently has been pointed out is that production has increased to the point where it is sufficient to meet all

normal needs—for consumption, for investment, and for exports. Only the necessity for maintaining large military programs imposes a piling up of demands that cannot be met.

Investment Needs Strongly Supported

To relieve the pressure it would be necessary to reduce some or all of these demands. But here again, measures that are seemingly within the powers of government encounter recalcitrant opposition.

In most countries, investment needs have been given recognition in expansion programs of various kinds. Such programs are assigned high priority among national objectives, because any slowing in the rate of productivity increase will, over a period of time, reduce their real income relative to ours and worsen their dollar gap by reducing their ability to compete with us. Hence, every effort is made to carry out such programs despite any difficulties that may be encountered.

An important exception is the low level of housing construction in Germany. The needs created by destruction and by growth of population were so huge that they could not possibly be met in any reasonably short period and were, therefore, largely ignored in favor of business expansion that could more readily pay its way.

England, in contrast, has undertaken a heavy residential construction program. Its total investment demands have also been swelled by the capital exports needed to discharge foreign indebtedness incurred during the war. These foreign capital transactions have contributed substantially to its recurring balance-of-payments emergencies, because exports could not be increased sufficiently to cover capital as well as current payments, and reserves were correspondingly drawn down. Only in the last year has there been any relief from the pressure of investment demands. With the "recession" of 1952, private business investment has lagged, helping to restrain the price advance, but this lag is at the same time being pointed to as a serious cause of concern for the future.

Attempts to Restrict Consumption

Efforts to restrict consumption also meet strong resistance. What can be accomplished is perhaps best illustrated by the German experience, though Italy and Belgium followed similar approaches. In Western Germany, a whole battery of deflationary measures kept living standards low—actually at a level of extreme poverty for large segments of the population. Heavy taxation, low wages and long hours for labor, and a monopolistic system of pricing designed to produce profits high enough to rebuild industrial capital quickly proved fairly successful in maintaining stability while production was being stepped up. It was possible to carry out such policies because of the combination of special circumstances that prevailed. A defeated people started without high expectations and knew that disturbances would be quickly put down by the occupation forces. They recognized that the facilities on which employment depends had been largely destroyed or removed. The continual flow of refugees from the Eastern zone kept unemployment high and held wages down.

Similar measures could hardly be applied in other circumstances; and in recent months there has been a distinct shift away from these repressive conditions even in Germany. Now the expectations of the German people

(Continued on page 6)

MOBILE HOUSING IN ILLINOIS

The trailer coach industry, now a business with a capital investment of more than one billion dollars, occupies a unique position in American industry. Billion-dollar industries are not unusual in the United States, but what makes the trailer coach industry unusual is its phenomenal growth: twenty-one years ago it did not exist; today it is "big business."

Prior to 1930, the only trailers resembling present-day models were custom-built, special-purpose trailers for business use. Vacationists were using various types of luggage and tent trailers or home-made house trailers as temporary shelter. It was these vacationists who gave the industry its start through their demand for camping and vacationing equipment which would provide greater comfort and convenience than makeshift shelters. The early "house trailers" were 12 to 14 feet long and were designed to supply a compact, utilitarian shelter in which hunters, fishermen, and other outdoor vacationists could sleep and prepare meals.

Throughout the decade preceding World War II, trailers were lengthened, plumbing facilities were added and improved, and more complete kitchen facilities were added. By the end of the thirties, trailer coaches had become year-round homes on wheels, and sales had reached \$10 million as compared with sales of a little over \$1 million in 1930. In the following years, trailers continued to grow in size and in number of conveniences available. The popularity of trailer homes grew even more rapidly. The industry's sales stood at \$114 million in 1946 and \$248 million in 1951, and it is almost certain that 1952 sales will be higher still. On the basis of the first nine months, the Trailer Coach Manufacturers Association estimates that sales will pass the \$300-million mark this year.

Illinois as a Producer of Mobile Homes

Illinois shares with Michigan, Indiana, and California the distinction of being one of the "big four" of the trailer industry. Although less than 9 percent of the nation's trailer manufacturing establishments are located in Illinois, the State's industry accounts for 16 percent of the value added and 17 percent of the value of products shipped by the industry. During 1947 approximately 1,200 workers in the Illinois trailer manufacturing industry put in more than two million man-hours of work and turned out products valued at over \$23 million. Since production has doubled since 1947, it is reasonable to assume that these figures have increased substantially as well.

Twelve of the thirteen Illinois trailer factories are located in Chicago. Some of these factories, such as those of the Glider Trailer Company, the Travelite Trailer Company, and the Indian Trailer Corporation, are among the largest in the industry.

The State's only trailer coach manufacturer outside Chicago is the Universal Trailer Corporation of Illinois, located at Batavia.

Changing Nature of the Industry

An interesting shift has taken place in the purposes for which people buy house trailers and consequently in the design and construction of the trailers. In 1937, about half the trailers sold were purchased for the purpose of providing shelter to vacationers; in 1950, this group accounted for less than 1 percent of the industry's sales. In the earlier year, retired people who wished to travel bought 35 percent of the trailers and those whose occupations forced them to move about a good deal accounted for about 15 percent of sales. By 1950, these percentages had been reversed, with the former group buying only 15 percent and the latter group buying about 35 percent. This does not represent a decrease in absolute sales to retired people, however, but merely a slower increase in demand. Dollar sales to this group were five times as large in 1950 as in 1937. Two groups whose demand was negligible in 1937 now account for almost half of the dollar amount of sales. The first of these groups, persons who buy trailers for use as temporary housing, accounted for 45 percent of dollar sales in 1950. The second, smaller, group are those who prefer to live in trailer coaches and have no intention of returning to conventional housing. This group purchased about 4 percent of the industry's output in 1950.

In addition, a small percentage of trailer coaches are used for business purposes, such as medical and dental offices, construction field offices, and bookmobiles.

The Future of the Industry

A review of the major causes of this prosperity shows that it is built on a foundation which is likely to last for many years. These causes are as follows:

Improvement in the coaches themselves. Today's coaches are longer, roomier, and more homelike. Some of them even contain automatic washing machines and television sets.

Improvement in the quality of trailer parks. Many of the newer parks represent investments of \$50,000 to \$250,000, much of the investment going into paved roadways, utilities, and landscaping.

Trailer coaches offer an excellent answer to wide fluctuations of population in war plant areas and are preferred by many construction workers to the inferior temporary housing frequently provided for them.

The industry is much concerned with standardization of conflicting state and local laws and regulations relating to length of trailers, taxes on trailers, speed limits for cars towing trailers, and restrictions on hours and days of the week when trailers may be moved on the highways. Such standardization would help the industry considerably.

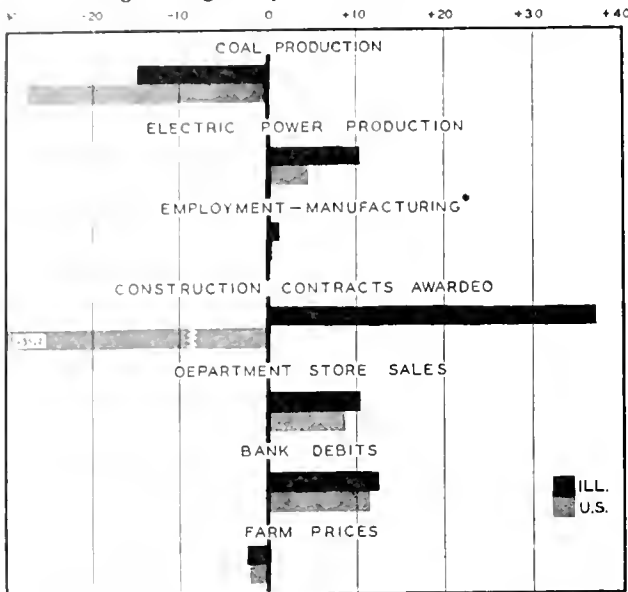
The removal, in the post-war years, of the 7 percent Federal excise tax on all trailer sales and the improvement in financing terms have aided the industry's expansion and will probably continue as an important factor in the future growth of the industry.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes September, 1952, to October, 1952



*August, 1952, to September, 1952.

ILLINOIS BUSINESS INDEXES

Item	October 1952 (1947-49 = 100)	Percentage Change from	
		Sept. 1952	Oct. 1951
Electric power ¹	150.8	+10.4	+11.8
Coal production ²	79.3	-14.8	-18.0
Employment—manufacturing ³	104.6	+ 1.1 ^a	+ 1.2 ^b
Payrolls—manufacturing.....	n.a.		
Dept. store sales in Chicago ⁴	107.0 ^c	+10.9	+ 1.2
Consumer prices in Chicago ⁵	115.2 ^d	0.0	+ 1.2
Construction contracts awarded ⁶	179.7	+37.1	+26.6
Bank debits ⁷	145.2	+12.3	+ 9.5
Farm prices ⁸	112.1	- 2.4	- 6.8
Life insurance sales (ordinary) ⁹	136.8	+12.8	+15.8
Petroleum production ¹⁰	95.1	+ 3.3	- 1.7

¹ Fed. Power Comm.; ² Ill. Dept. of Mines; ³ Ill. Dept. of Labor; ⁴ Fed. Res. Bank, 7th Dist.; ⁵ U. S. Bur. of Labor Statistics; ⁶ F. W. Dodge Corp.; ⁷ Fed. Res. Bd.; ⁸ Ill. Crop Rpts.; ⁹ Life Ins. Agcy. Manag. Assn.; ¹⁰ Ill. Geol. Survey.
^a August, 1952, to September, 1952. ^b September, 1951, to September, 1952. ^c Seasonally adjusted. ^d On 1935-39 base, the index was 195.9. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	October 1952	Percentage Change from	
		Sept. 1952	Oct. 1951
Personal income ¹	275.8 ^a	+ 0.7	+ 5.4
Manufacturing ¹			
Sales.....	294.0 ^a	+ 3.4	+ 7.9
Inventories.....	43.3 ^{a, b}	+ 0.2	+ 2.1
New construction activity ¹			
Private residential.....	12.5	- 0.9	+ 8.0
Private nonresidential.....	11.3	- 4.0	- 0.3
Total public.....	12.3	- 4.0	+ 8.9
Foreign trade ¹			
Merchandise exports.....	n.a.	....	....
Merchandise imports.....	n.a.	....	....
Excess of exports.....	n.a.	....	....
Consumer credit outstanding ²			
Total credit.....	22.3 ^b	+ 3.0	+13.9
Installment credit.....	15.6 ^b	+ 2.6	+18.2
Business loans ²	22.3 ^b	+ 2.8	+ 8.3
Cash farm income ³	49.2	+13.8	- 2.6
Indexes (1947-49 = 100)			
Industrial production ²			
Combined index.....	123 ^a	+ 0.4	+ 4.1
Durable manufactures.....	136 ^a	+ 2.4	+ 7.3
Nondurable manufactures.....	112 ^a	- 0.5	+ 2.7
Minerals.....	113 ^a	- 5.7	- 5.2
Manufacturing employment ⁴			
Production workers.....	106 ^a	+ 0.4	+ 2.0
Factory worker earnings ⁴			
Average hours worked.....	104	+ 0.5	+ 2.5
Average hourly earnings.....	128	+ 0.5	+ 5.6
Average weekly earnings.....	134	+ 1.0	+ 8.2
Construction contracts awarded ⁵	170	-36.2	+23.7
Department store sales ²	115 ^a	+ 8.5	+ 5.5
Consumers' price index ⁴	114 ^c	+ 0.1	+ 1.9
Wholesale prices ⁴			
All commodities.....	111	- 0.5	- 2.2
Farm products.....	105	- 1.6	- 5.9
Foods.....	109	- 1.6	- 2.8
Other.....	113	- 0.1	- 1.3
Farm prices ³			
Received by farmers.....	105	- 2.1	- 4.7
Paid by farmers.....	113	- 1.1	- 0.4
Parity ratio.....	100 ^d	- 1.0	- 4.8

¹ U. S. Dept. of Commerce; ² Federal Reserve Board; ³ U. S. Dept. of Agriculture; ⁴ U. S. Bureau of Labor Statistics; ⁵ F. W. Dodge Corp.
^a Seasonally adjusted. ^b As of end of month. ^c On 1935-39 base, 190.9. ^d Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1952					1951
	Nov. 22	Nov. 15	Nov. 8	Nov. 1	Oct. 25	Nov. 24
Production:						
Bituminous coal (daily avg.).....	1,738	1,803	1,800	1,537	358	2,032
Electric power by utilities.....	7,971	7,884	7,807	7,753	7,696	7,157
Motor vehicles (Wards).....	123.5	137.9	134.3	146.7	135.9	78.1
Petroleum (daily avg.).....	6,582	6,543	6,535	6,471	6,461	6,145
Steel.....	247.8	248.0	246.4	249.7	248.7	232.2
Freight carloadings.....	811	829	829	862	761	711
Department store sales.....	134	130	118	115	122	123
Commodity prices, wholesale:						
All commodities.....	110.3	110.7	110.0	110.3	110.6	113.6
Other than farm products and foods.....	113.0	113.0	112.1	112.4	112.5	114.5
22 commodities.....	91.5	91.7	91.6	90.9	92.6	109.5
Finance:						
Business loans.....	22,896	22,727	22,484	22,274	22,153	20,872
Failures, industrial and commercial.....	167	148	143	136	154	149

Source: Survey of Current Business, Weekly Supplements.

RECENT ECONOMIC CHANGES

Employment Rises

More people were employed in civilian occupations in November than in any other November on record. At 62.2 million, total employment was 360,000 above October, and 900,000 above November a year ago. The increase was entirely due to a more than seasonal rise in nonagricultural employment, which rose 900,000 from October to a total of 55.5 million in November. During the month, agricultural employment continued its seasonal decline, dropping from 7.3 million in October to 6.8 million in November.

Unemployment, at a record low of 1.3 million in October, rose in November to 1.4 million. Despite this slight rise, the jobless total was well under unemployment a year ago. Of those who were willing and able to work last month only 2.2 percent could not find jobs; a year ago 2.9 percent were unemployed. Census data, in thousands of workers, are as follows:

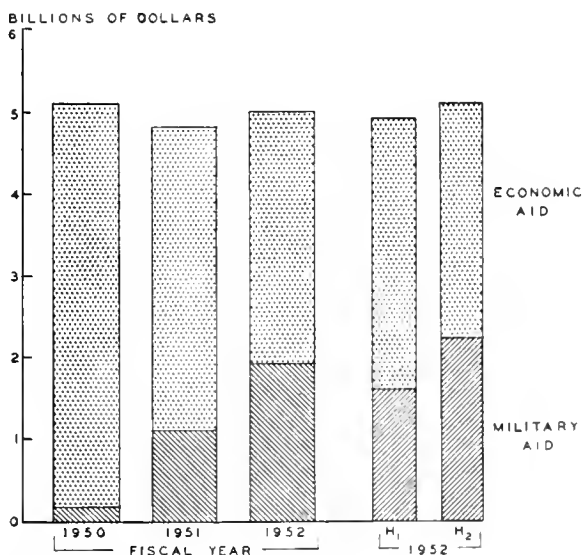
	November 1952	October 1952	November 1951
Civilian labor force	63,646	63,146	63,164
Employment	62,228	61,862	61,336
Agricultural	6,774	7,274	7,022
Nonagricultural	55,454	54,588	54,314
Unemployment	1,418	1,284	1,828

Foreign Aid in Fiscal 1952

In the fiscal year ended June 30, 1952, the United States extended \$5.0 billion as foreign aid in the form of loans and gifts. Assistance in the two years since the outbreak of hostilities in Korea has totaled \$9.8 billion. In this two-year period, repayments on credits, counterpart funds, and returned lend-lease vessels reached almost \$1 billion, so that net aid amounted to \$8.9 billion—\$8.4 billion in net grants and \$0.5 billion in net credits.

Foreign aid totals have shown relatively little variation since 1950, amounting to \$5.1 billion in fiscal 1950, \$4.8 billion in fiscal 1951, and \$5.0 billion in fiscal 1952. However, as the accompanying chart shows, military aid has absorbed an increasingly large proportion of the total. In fiscal 1950, the last year before the Korean invasion, military aid amounted to only 4 percent of total foreign

FOREIGN AID



Source: U. S. Department of Commerce

aid. Since then, military assistance has risen rapidly, accounting for 24 percent in fiscal 1951 and 38 percent in fiscal 1952. By the second half of fiscal 1952, military aid was up to 43 percent of the total and gross foreign aid in the last quarter of the year was higher than in any quarter of the preceding three years, reaching an annual rate of \$6.0 billion.

Gross National Product Advances Slightly

Gross national product rose slightly in the third quarter to an annual rate of \$343.4 billion, only \$0.8 billion over the second quarter level. There was even less change in the physical volume of production from the second to the third quarter when account is taken of the moderate price rise that occurred during the period.

Consumer expenditures remained unchanged in the third quarter at an annual rate of \$215 billion. Expenditures for consumer durable goods, however, dropped \$2.2 billion. This was largely due to a reduction of \$2.5 billion

GROSS NATIONAL PRODUCT OR EXPENDITURE (seasonally adjusted, billions of dollars at annual rates)

	3rd Qtr. 1952	2nd Qtr. 1952	3rd Qtr. 1951
Gross national product	343.4	342.6	330.9
Personal consumption	215.0	214.9	206.4
Durable goods	24.2	26.4	25.5
Nondurable goods	118.0	117.8	113.2
Services	71.9	70.8	67.6
Domestic investment	51.7	49.3	56.2
New construction	23.0	23.6	22.4
Producers' durable equipment	25.0	25.7	24.9
Changes in business inventories	3.7	.1	8.9
Nonfarm inventories only	3.0	—	8.2
Foreign investment	-1.2	.4	1.1
Government purchases	77.9	78.0	67.3

INCOME AND SAVINGS

National income	n.a.	286.9	280.2
Personal income	268.9	264.4	256.1
Disposable personal income	235.3	231.5	227.1
Personal saving	20.3	16.5	20.7

in expenditures for automobiles, production of which had been sharply curtailed by the work stoppage in steel. In contrast, consumer purchases of other durables— notably furniture, television sets, and household equipment—advanced over the preceding quarter by half a billion dollars at an annual rate. Spending for nondurable goods showed little change from the second quarter, whereas expenditures for services were up \$1 billion.

Total gross private domestic investment moved forward from an annual rate of \$49.3 billion in the second quarter to \$51.7 billion in the third on the strength of a \$3.6 billion increase in business inventory accumulation. This was partly offset by a decline of \$1 billion in business outlays for new plant and equipment.

Government purchases of goods and services remained unchanged from the second quarter annual rate of \$78 billion. The advance in national security expenditures, the largest component of government purchases, was temporarily halted at an annual rate of \$50 billion, mainly because of the effects of work stoppages brought about by the steel strike.

Levelling of Business Inventories

The combined inventories of manufacturers, wholesalers, and retailers amounted to \$74 billion (seasonally adjusted) at the end of October. This was less than 1

percent above September of this year and October a year ago. Retailers' stocks registered the biggest gains.

As shown by the accompanying chart, total business inventories in 1952, which had been running ahead of the corresponding months of 1951 during the first half of the year, have been below the 1951 level since July. It is significant that the high level of stocks in 1952 is wholly the result of greater manufacturing inventories. Retailers' stocks have been below their 1951 levels most of the year even though retail sales have been above those of 1951 every month of this year since February. For instance, the latest figures available show total sales of all retail stores in October amounted to \$15 billion, about 9 percent above the same month a year ago. If the Christmas shopping season comes up to initial expectations, retailers' shelves may be well-nigh cleaned off by the end of the year.

Credit Up

Loans to business firms rose during the four-week period ended November 26 to \$22.7 billion, 3.4 percent higher than at the end of October and 9.3 percent higher than at the end of November last year. Increases in loans were sizable in each of the five weeks prior to November 26, reaching their fall peak in the week ended November 12.

Consumer credit has also been rising, advancing during October to a record \$22.3 billion, up \$650 million from September and \$2.7 billion above October a year ago. Installment credit at the end of October amounted to \$15.6 billion, of which well over half was for automobile loans; noninstallment credit such as single payment loans and charge accounts made up the remaining \$6.7 billion.

Since May of this year when Congress dropped Regulation W, which established the down payment and pay-off requirements on such purchases as automobiles, furni-

ture, and appliances, there has been a \$2.1 billion boost in consumer credit. This has been a cause for concern in some government circles, though it is also noted that the ratio of consumer credit to disposable income is now slightly less than 10 percent, somewhat lower than it was in 1940.

No Easy Solution

(Continued from page 2)

are being built up, as both East and West bid for their support, and the war boom is reducing unemployment and providing higher wages despite the deflationary policies still in effect.

In England, the people were insistent on re-establishing living standards as quickly as possible. Full employment programs were combined with efforts to maintain real values through price controls and rationing. Gradually, however, pressure against the control mechanisms was built up, until, with a solution no nearer to realization, policy changes had to be made. Beginning with the devaluation of 1949, there has been a slow movement away from the high-consumption policy, but the resistance of the British people to any loss in living standards places a definite restraint on the shift.

France pursued an intermediate course of action. It attempted to keep resources fully employed but permitted real wages to decline under the impact of inflationary price advances. The political instability of the postwar period illustrates the consequences of a situation in which the struggle between groups for larger shares of the national income cannot be subdued. The Pinay government has finally achieved some measure of success in obtaining stabilization, partly by cutting government expenditures but even more by securing, at least temporarily, the requisite degree of public cooperation. Apparently all are tired of a struggle in which none can be sure of coming out on top if the contest continues.

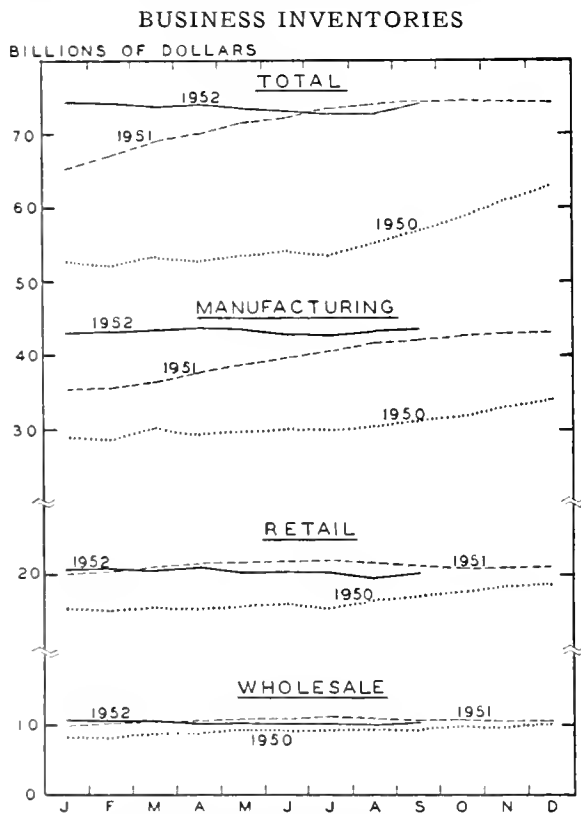
Military Programs

Topping all of these other demands are the requirements of the rearmaments race. When we tell other governments to put their houses in order, cut spending, and balance their budgets, we do not appear entirely consistent in their eyes. Not only do we fail to live up to this advice ourselves, but we also press them to expand their military programs.

Most of these countries wish to cooperate in the mutual defense effort. On the other hand, they have greater hopes than we about the possibilities of peaceful adjustment, and military programs do not have to be very large to ensure deficits in government budgets. In the face of economic problems so unyielding, they turn more and more away from any policy likely to aggravate international tension. This explains in part why reports from Europe indicate that defense efforts in many European countries are "bogging down," that attention is being directed toward improving the quality of existing forces rather than toward increasing them, and that increases in defense spending will at best be only moderate.

In other words, when they appear to us to be "dragging their heels," they are merely trying to minimize the difficulties of their positions. Since these difficulties are not easily resolved, and will probably persist as long as the Cold War continues, we have to expect something less than full support for any vigorous action we may wish to pursue in the years ahead.

VLB



Source: U. S. Department of Commerce.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Savings by Individuals

Individual savings in life insurance, time deposits, United States savings bonds, savings and loan associations, and government pension and trust funds grew from \$10.5 billion in 1910 to \$228.8 billion in 1951, according to the August, 1952, issue of the National Industrial Conference Board's *Business Record*. During the depression years, the total of these selected savings declined only about \$7 billion.

Changes in these forms of savings over the last 40 years can be seen from the accompanying chart. Time deposits and life insurance accounted for almost 80 percent of total savings in 1939, but by 1951 had dropped to only 52 percent. Since 1939, savings bonds have shown the greatest increase although government pensions and trust funds have also experienced very rapid growth.

A Biographical History of Business

Probing into areas of business history previously untouched, comparisons and contrasts of the history of entrepreneurship both abroad and within the United States are interestingly presented in *Men in Business*. A book of eleven essays edited by William Miller and published in 1952 by the Harvard University Press (Cambridge, Mass., \$5.00), the study was undertaken "to further our understanding of this world and these times by studying the history of business and, insofar as this may be said of men in relation to social forces, the history of businessmen who ruled it." These provocative essays, each written by a different author, include portrayals of John Stevens, Henry Day, Frank Sprague, and Henry Poor as well as of the American industrial elite in the 1870's and the careers of top executives in the 1900's.

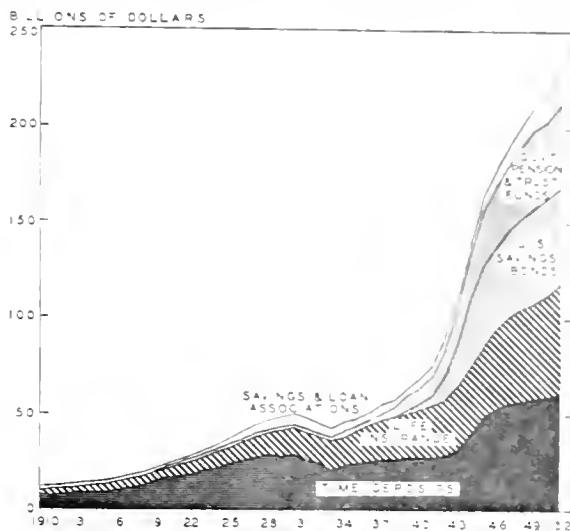
Employee Turnover

Although some employee turnover is essential to most industries because of business fluctuations, an excessive amount has created problems for many companies because of the high costs of replacement and training. Discussing "The Problem of Employee Turnover" in the September-October *Harvard Business Review*, Gordon T. Bowden analyzes standard methods of dealing with employee turnover. The advantages as well as the failings of placement techniques, wage levels, employee benefits, and attempts to discover employee attitudes through the use of questionnaires and interviews are studied. But the author believes that a large part of the problem of labor turnover could be solved through a closer relationship between supervisor and employee. A plan is suggested whereby supervisors would be trained through the study and discussion of company case histories.

Aid for Airsickness

Chronic sufferers from seasickness and airsickness can find relief from a mixture of two drugs, benadryl and hyoscine, combined by Parke-Davis and Company of Detroit. In tests at Randolph Field, Texas, the new pill was given to 61 men, and a neutral pill was taken by 52 others. During the turbulent flights, none of the men who took the new tablet experienced severe nausea but 20.6 percent of the others went through varying degrees of agony. The pill is taken about one hour before departure time.

GROWTH OF SELECTED FORMS OF SAVINGS



Source: National Industrial Conference Board, Inc.

TV-Quotient

"How will your product look on television?" is the question asked in "Your Product's TV-Q," an article in the October 15 issue of *Modern Industry*. Practical suggestions are offered for improving the appearance of products whether on television or not. One suggestion made is that a picture be taken of the item, mounted on the wall, and studied under daylight, incandescent light, and fluorescent light. A two-inch newspaper cut on coarse screen with "proofs" on newsprint will also help determine the TV-Quotient. Accompanying the article are several illustrations showing actual changes made in the packaging of some products so as to make them appear attractive on television.

Carton Opener

A narrow tape strong enough to cut through a fiberboard carton has been developed by the Morton Salt Mining and Manufacturing Company. Opening a cardboard box almost as easily as a cellophane cellophane opens a package of chewing gum, the tape saves time and eliminates the need for opening tools. An automatic machine designed to apply the tape to cartons at the rate of one per second is being manufactured by the same company.

Home Fire Alarm

An attractive and compact fire alarm for the home is being marketed by R. J. Schuler Associates, Gross Pointe Branch, Detroit 36, Michigan. Fully automatic, the alarm gives a loud penetrating warning when the temperature reaches a dangerous point, thus alerting the household of impending fire. Called "Firealarm," the device is hung on the wall and plugged into a 110-120 volt A.C. outlet. It needs no maintenance and does not use electricity when set off by flames or excessive heat. The alarm resets itself automatically when the fire has been extinguished. Selling for approximately \$12.50 (including shipping), the alarm is expected to be useful in homes, motels, hotels, stores, garages, factories, and institutions.

THE PUBLIC OPINION POLLS AND THE 1952 ELECTIONS

JOSEPH E. BACHELDER, *Institute of Communications Research*

In estimating the outcome of the presidential election in 1952, the pollsters succeeded in indicating that General Eisenhower would win but failed to point out the percentage by which he would win. They failed in estimating the percentage of the popular vote he would receive, in predicting the "landslide" of electoral votes, and in indicating the size of the turnout.

The question which immediately arises is whether this is to be construed as another "failure of the polls" and if so why did it occur. The thesis of this paper is that the polls did not fail in terms of completely erring, that they did the best that can be done at the present stage of research in polling, and that the work this year indicated a great improvement over previous polling.

The Record of Election Polls to Date

At this point, a brief history of recent polling should be outlined. The first "modern election polling" using national samples and field interviewing can be said to date from 1936. Thus, the pollsters had had only four national presidential elections in which to experiment and gather experience prior to this last November. In one of these previous elections, that in 1948, the polls had been wrong in predicting the winner and in predicting the percentage vote. And although it is true that the polls have had experience in Congressional and local elections, only part of this experience can be used in the unique situations arising in presidential elections.

Following the 1948 election, in which the polls were completely in error, the Social Science Research Council appointed a committee to investigate the work of all organizations which did polling in 1948. The findings of this committee were later published in Bulletin 60 of the Social Science Research Council, *The Pre-Election Polls of 1948*, which has been read with intense interest by all pollsters. The report did point out many possible reasons for the errors, but had little to offer as definite and verified suggestions for improvement. Many areas of possible error were not touched upon by the committee because of lack of time, data, or research.

Therefore, as the pollsters started to plan for the 1952 elections they had little on which to base their planning except their own experience in four presidential elections and a small amount of research by social scientists. They knew, however, that they must try to do certain things. They had to tighten up their sample designs; poll later in the campaign, even up to a few days before the election; and try to get more information on the undecided voter. In their last releases before the election, the four national polls gave the following figures:

	Eisenhower	Stevenson	Others	Undecided
Crossley.....	47.4%	42.3%	0.4%	9.9%
Gallup.....	47	40	...	13
Roper.....	49	37	...	14
Fink.....	50.8	48.8	0.4	...

At the time of this writing, it appears that the final tabulation of all votes in the presidential election will give the following results:

	Eisenhower	Stevenson	Others
Actual returns.....	55.1%	44.5%	0.4%

Thus, all of these polls gave the lead to Eisenhower, but none of them gave as high a percentage of the vote

as he actually obtained. With the exception of Fink, who did not report any Undecideds in his last release, the problem lay in the allocation of the undecided vote. Crossley, Gallup, and Roper suggested in their releases that experience had shown that the undecided vote usually went Democratic and concluded that this would indicate a very close election. In this estimate they were wrong.

In 1948 they had practically eliminated the undecided voter by allocating the Undecideds in proportion to the Decideds. They had been told, following 1948, that this was a great error and they should use some other system. It is interesting to see what the figures would have been if they had used their 1948 system of allocation in 1952 (data for the U. S. Poll are not given as it was not in operation in 1948):

	Eisenhower	Stevenson
Crossley.....	52.8	47.2
Gallup.....	54.0	46.0
Roper.....	56.9	43.1

It appears from these figures that the suggestions for allocating the Undecideds produced a worse estimate of the popular vote than the earlier systems.

Improvements in Polling Methods

The pollsters did tighten up their sample designs and used various systems. Somewhat to the confusion of the samplers, it made very little difference this time as to which type of sample was used. There were highly developed probability samples, pinpoint samples, quota samples, and variations of each used in the national, state, and local polls. This does not indicate that sampling is not important as a cause of error. It does indicate that sampling is not the "prime" solution to the problem.

All of the polls did poll much later than in 1948. All did some work in the week prior to the election and some continued up to a few hours before the deadline for the newspaper releases. To a certain degree, this late polling was disturbing rather than helpful, for it seemed to indicate an upswing in the percentage vote for Stevenson, which when projected through the election date, disclosed the possibility, at least, of a close result. Interpreted on the basis of previous experience, this trend added to the caution with which the pollsters handled their late releases.

All of the pollsters made various attempts to gather data which would give them more understanding of the possible behavior of the undecided, or noncommittal, or "independent," voter. These attempts included fairly extensive questioning on previous voting behavior, group affiliation, party preference, occupation, age, education, and opinions on issues. The analysis of these data led Roper to call some respondents "People in Basic Conflict" and led some, if not all, pollsters into what at times felt like "basic confusion."

Gallup used two questions, in addition to the presidential preference question, which had appeared to be highly revealing in election polling in other countries, notably in England. These included one which asked which "party" the respondent would like to see win and one which asked which "party" the respondent felt was best for himself and people like himself. The confusion arose when it was discovered that among those choosing Eisenhower on the candidate preference question, there were a large number who replied "Democratic Party" to

the other two questions. A person who was a member of a labor union, with an income under \$4,000, who thought the Democrats were best for the working people, who could not find much to criticize about the last four years of the Truman administration, but who said he was going to vote for Eisenhower was the type which Roper called a "Person in Basic Conflict."

Two problems then arose. The first was in attempting to use these results to estimate the behavior of the Undecideds, and the second was whether the early preference for Eisenhower might fade out and the party loyalty and class association factors become the important issue when the respondent entered the voting booth. These problems were not solved by the pollers. The experience that most had with trying to handle the undecided voter indicates clearly that the present techniques are not satisfactory.

Although many of the new procedures and devices used by the pollers did not work out this time, they did eliminate what has been called the "Republican Bias" from their data, and for that they are thankful. In almost all previous polling there had been an overestimation of the Republican vote and a corresponding underestimation of the Democratic vote. This apparently was due to a number of technical problems, the chief one being the failure of interviewers to "go down low enough" in the economic groups. Through tighter sampling, better interviewing, and improved supervision this factor appears to have been handled successfully. But in terms of the final poll predictions and the final election results, this compensation for the "Republican Bias" may have been carried too far.

Special Features of the 1952 Election

Thus, the failure to estimate the percentage of the popular vote which Eisenhower received was not due to a lack of effort or experimentation on the part of the pollers. Some of the error must be laid to the unusual factors of this election. Chief among these was the fact that a major party change was to take place. None of the polls had had any experience with such a change in the making. All polling had been done under a Democratic administration with no change in the party of the president. In fact, only two men, Roosevelt and Truman, had been elected in the history of contemporary polling. Therefore, there was no experience with such a change to be used in developing plans for polling or in interpreting the data after it was collected.

As one indication of the problems arising in a changing situation, we can mention the so-called prestige factor in the past-preference question. Experience has shown that there is a fairly constant prestige factor related to this in that more people, when questioned, say they voted for the winning candidate in the last election than actually did. In adjusting the sample and weighting the data this factor is taken into account. It is particularly useful in analyzing the Undecideds. But there was some indication this last summer and fall that the prestige factor was less important than before and that fewer people were saying they had voted for Truman in 1948. It may be, therefore, that when a political change is in the making, the prestige factor operates in reverse, and if people are thinking of changing their vote, they change their statements as to how they voted previously.

Another problem related to a change in party is that to win, a candidate must take some people away from the other party. Thus, many of those who choose the new candidate will have characteristics similar to those who

voted for the other candidate in the previous election. How to define and measure the strength of the desire to change party and its persistence through election day is as yet an unsolved problem.

Another special factor in this election was that Eisenhower, in the final results, ran well ahead of his party. That is, he failed to pull into office with him many Republican candidates in state and local elections. Measuring the strength of a candidate versus the strength of his party is particularly important when a change is in the offing. This the polls were not successful in doing in the recent election.

The final unique factor in this last election which will be mentioned here is the unprecedented turnout of voters. The greatest number of voters in any presidential election prior to this one was 49,901,000 in 1940. In 1948 the turnout was 48,794,000. According to the most recent but still incomplete returns, more than 61,150,000 voters cast ballots in the presidential race this last November. Some 12,500,000 "new voters" went to the polls in November, and in polling, the problem of what to do with the person who says he did not vote in the previous election has always called for considerable thought on the part of the poller.

In the past, more people have said they would vote when asked by pollers than actually did go to the polls. When a large turnout is expected, the poller's problem is in estimating how many of his sample will actually vote. The predictions of the polls were based on an estimated turnout of from 53,000,000 to 55,000,000 voters. It is possible that the polls would have been correct in percentage estimates if there had been only that number casting ballots. There was some indication in polling results this last time that the "new voter" was more Republican than the rest of the sample.

Conclusions

In summary it can be said that the polls improved their techniques this time to the point of eliminating the "Republican Bias" and in giving the lead to the winning candidate. They failed in estimating the percentage of the popular vote he would receive. This failure is due in part to lack of techniques which in turn is due to the few experiments that have been possible in presidential election polling. This failure is also due in part to the unique features of this election and the total lack of experience in polling elections with such features.

A final question that is always raised in connection with election polling is the effect it has on other areas of survey research, particularly market research. In the long run it is beneficial. There is no better way to make a research organization go into a period of self-searching and improvement than having it "stick its neck out" by publicly announcing its findings. From this experience many new ideas and developments arise which are passed on to other researchers and add to the steady improvement of survey work. Almost all of the pollers are in market research themselves and carry their findings over into the rest of their work.

In spite of the errors of the poll, there does not seem to be any other system of sounding public opinion which has been right as frequently as the polls. The essential problem is *not* why the polls were off a few percentage points but how, with all the known problems of polling and lack of experience and experimentation, they can come within a few percentage points of estimating how sixty-one million people will behave on the basis of talking to only a few thousand.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity in October registered gains over the previous month as well as over October, 1951. Construction contracts awarded, up 37 percent from September and almost 27 percent from October, 1951, totaled \$95,401,000. October bank debits and life insurance sales increased more than 12 percent and electric power production and department store sales gained more than 10 percent over the previous month. All were up from a year ago. Operating at 109 percent of capacity in October, Chicago steel mills produced 2,058,453 net tons, 8 percent above September output and 10 percent higher than that of the same month last year. Other indexes showing increases included manufacturing employment and average weekly earnings, petroleum production, and business loans. Only two indexes, coal production and farm prices received, declined from the September level.

Growth in Aged Population

Estimates of the population in Illinois indicate that on July 1, 1951, one out of every 11 persons was 65 years old or over. This compares with one out of every 12 persons in the United States. In April, 1950, when the Seventeenth Decennial Census was taken, 754,302 people in Illinois were reported as 65 years old or over. By July 1, 1951, the estimated number of persons who had reached their 65th birthday had grown to 787,000, an increase of 4.3 percent. But total population in the State rose only 1.2 percent to an estimated 8.8 million on July 1, 1951. The difference in these percentage increases reflects the rate at which the aged population is growing within Illinois.

Cost of Industrial Accidents

Annual cost of industrial accidents in Illinois, based chiefly on 1951 data, was estimated at \$407 million by the Illinois Department of Labor. Employee wage losses, including actual and future earnings, accounted for 53 percent of the total. But the loss to employers was also substantial. Besides the usual direct costs of compensation

payments and medical and hospital expenses, employers paid for lost production, first aid, property damage, insurance overhead, spoilage of material, and other administrative costs. In addition, the State of Illinois paid \$591,000 to administer workmen's compensation claims. These estimates are necessarily rough, but they do indicate the magnitude of a cost not often analyzed by states.

Illinois Oil Fields

Illinois oil production in 1951 was 60.2 million barrels, off 3 percent from 1950. Producing 2.7 percent of the United States total, Illinois fell to seventh place in the country after having been sixth for eight years. Out of 2,383 wells completed during 1951, 916 were producing oil wells, 8 were gas wells, and the others were unsuccessful. At the end of the year, 113 producing oil wells had been drilled in 41 new fields as compared with 145 wells drilled in 24 new fields during 1950.

The price of crude oil in 1951 fluctuated only slightly from the \$2.77 per barrel received in most Illinois fields. Total value of liquid products amounted to \$166.9 million for crude at the well and approximately \$8.7 million for natural gasoline and liquefied petroleum gases from Illinois oil fields in 1951.

Employment Spurt

Nonfarm employment in Illinois rose by 66,700 persons in a two-month period ending with mid-September. Two-thirds of the gain was recorded in the Chicago area. The brighter picture of employment is due in large part to manufacturing activity and particularly to full steel production during the latter part of this 60-day period. Rising output of television and radio sets as well as an accelerated flow of communication equipment to the armed forces was another important factor in the increase.

Nonmanufacturing industries also shared in the advance. Service trades, transportation, and trade establishments together acquired some 13,300 new employees. Teaching staffs added about 8,700 persons because of heavy registrations in the lower elementary grades.

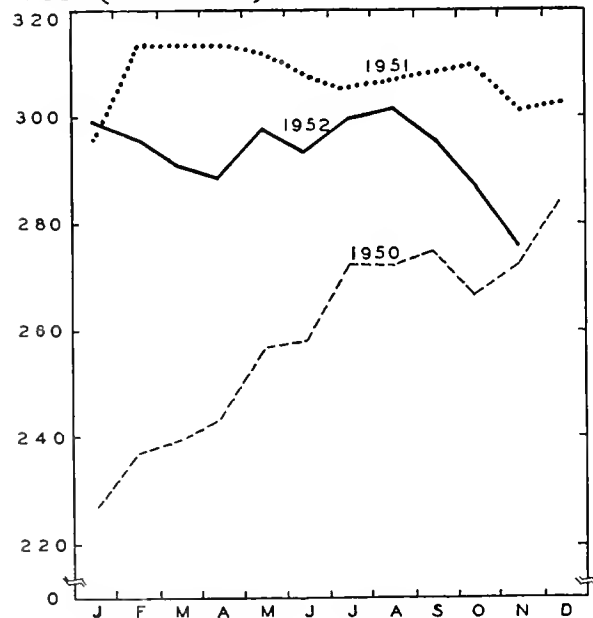
Unemployment during the 60 days dropped from 138,000 persons to 105,000. Employment gains and a return to school by students who had entered the labor market during the summer months contributed to this decline.

Farm Prices Down

The index of prices received by Illinois farmers fell to 276 percent of the 1910-14 base in November, a low for 1952. This was 4 percent lower than in October and 8 percent less than in November, 1951. Prices received have been declining steadily since August when a 1952 high of 301 percent was recorded (see chart). The United States index of prices paid by farmers has also declined, but by a considerably smaller margin. As a result, the parity ratio for Illinois dropped more than that for the nation, moving from 105 in August to only 98 in November — the lowest point since April, 1950.

Both crop and livestock prices are off from a year ago. Lower prices in Illinois for meat animals, corn, wheat, oats, and red clover seed were only partially offset by increases in apple, hay, and milk prices. Consumers in Chicago paid 1 percent more for food in October than they had in the same month a year earlier.

FARM PRICES RECEIVED IN ILLINOIS
INDEX (1910-14 = 100)



Source: Illinois Department of Agriculture.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

October, 1952

	Building Permits ¹ (000)	Electric Power Con- sumption ² (000 kwh)	Estimated Retail Sales ³ (000)	Depart- ment Store Sales ⁴	Bank Debits ⁴ (000,000)	Postal Receipts ⁵ (000)
ILLINOIS	\$24,243 ^a	882,712 ^a	\$516,326 ^a		\$12,689 ^a	\$14,347 ^a
Percentage Change from.... {Sept., 1952....	-0.5	+1.8	+7.5	+13.6	+12.3	+15.1
{Oct., 1951....	-0.5	+4.2	+5.5	+1.7	+9.5	+10.2
NORTHERN ILLINOIS						
Chicago	\$17,857	684,862	\$382,045		\$11,489	\$12,638
Percentage Change from.... {Sept., 1952....	+3.7	+1.3	+10.1	+14.2	+12.0	+15.2
{Oct., 1951....	+0.4	+4.3	+7.3	+1.3	+10.2	+10.6
Aurora	\$ 725	n.a.	\$ 7,030		\$ 46	\$ 102
Percentage Change from.... {Sept., 1952....	+66.7		+1.9	+6.9	+4.0	+15.3
{Oct., 1951....	+138.5		+0.5	+0.4	-3.3	+20.3
Elgin	\$ 317	n.a.	\$ 5,095		\$ 30	\$ 109
Percentage Change from.... {Sept., 1952....	+22.9		-0.1	+2.0	+5.0	+18.3
{Oct., 1951....	-27.0		+0.2	+2.8	+5.0	+6.9
Joliet	\$ 100	n.a.	\$10,053		\$ 62	\$ 76
Percentage Change from.... {Sept., 1952....	-85.1		-0.2	+7.5	+13.1	-5.0
{Oct., 1951....	-76.2		+8.6	+6.0	+13.7	-3.6
Kankakee	\$ 39	n.a.	\$ 4,991		n.a.	\$ 35
Percentage Change from.... {Sept., 1952....	-80.9		+5.8	-4.8		+5.6
{Oct., 1951....	-70.2		+9.0	+5.9		-3.8
Rock Island-Moline	\$ 817	16,885	\$ 9,015		\$ 30 ^b	\$ 159
Percentage Change from.... {Sept., 1952....	-14.3	+13.9	-2.7	n.a.	+9.0	+34.2
{Oct., 1951....	-27.8	-2.8	-12.4		+1.7	-0.1
Rockford	\$1,086	28,523	\$15,069		\$ 137	\$ 173
Percentage Change from.... {Sept., 1952....	+19.5	+3.3	+1.3	+13.8	+6.8	+16.2
{Oct., 1951....	+28.2	+13.1	-0.6	-3.4	+4.2	+7.8
CENTRAL ILLINOIS						
Bloomington	\$ 325	6,322	\$ 5,219		\$ 59	\$ 98
Percentage Change from.... {Sept., 1952....	-18.1	+4.3	+2.0	n.a.	+5.3	-2.7
{Oct., 1951....	+72.9	+15.8	+3.4		+3.7	-0.1
Champaign-Urbana	\$ 277	7,540	\$ 7,359		\$ 68	\$ 98
Percentage Change from.... {Sept., 1952....	-51.6	+5.7	+13.9	n.a.	+29.9	+20.7
{Oct., 1951....	+57.4	-3.1	+2.6		+5.8	+14.2
Danville	\$ 111	7,671	\$ 5,721		\$ 46	\$ 58
Percentage Change from.... {Sept., 1952....	-42.8	-2.8	+0.3	+15.2	+12.3	+19.2
{Oct., 1951....	-48.1	+6.9	+0.3	+4.5	+6.7	-1.6
Decatur	\$ 300	21,109	\$ 9,217		\$ 151	\$ 102
Percentage Change from.... {Sept., 1952....	+56.3	+8.9	+0.0	+12.9	+49.4	+3.4
{Oct., 1951....	-54.4	+4.7	+1.9	+4.6	+11.8	+0.5
Galesburg	\$ 214	5,723	\$ 3,878		n.a.	\$ 34
Percentage Change from.... {Sept., 1952....	-21.9	+6.2	+1.7	n.a.		+11.6
{Oct., 1951....	+118.4	+3.2	-1.7			+6.5
Peoria	\$1,143	44,810 ^c	\$15,996		\$ 238	\$ 215
Percentage Change from.... {Sept., 1952....	+65.2	+1.1	-1.7	+16.0	+14.5	+8.0
{Oct., 1951....	+486.2	-0.9	+3.4	+5.3	+2.5	+11.4
Quincy	\$ 339	6,646	\$ 4,681		\$ 41	\$ 80
Percentage Change from.... {Sept., 1952....	+33.5	-1.2	+2.9	+19.0	+17.1	+22.0
{Oct., 1951....	+22.4	+1.3	-0.5	0.0	+1.8	+4.7
Springfield	\$ 300	25,199 ^c	\$13,066		\$ 101	\$ 229
Percentage Change from.... {Sept., 1952....	-52.7	+7.1	+0.3	n.a.	+11.0	+16.7
{Oct., 1951....	-17.8	+8.6	-2.2		+7.9	+17.4
SOUTHERN ILLINOIS						
East St. Louis	\$ 119	11,705	\$ 8,960		\$ 149	\$ 67
Percentage Change from.... {Sept., 1952....	-68.4	-4.0	-4.1	n.a.	+7.4	+24.6
{Oct., 1951....	-26.1	+2.2	-2.0		-10.6	+35.4
Alton	\$ 89	11,166	\$ 4,704		\$ 35	\$ 34
Percentage Change from.... {Sept., 1952....	n.a.	+2.7	+1.3	n.a.	+9.4	+40.4
{Oct., 1951....	-5.3	+6.7	+4.8		+18.0	+22.7
Belleville	\$ 85	4,553	\$ 4,229		n.a.	\$ 39
Percentage Change from.... {Sept., 1952....	+63.5	-13.8	+3.9	n.a.		+15.3
{Oct., 1951....	-90.4	+1.6	+7.0			-17.4

Sources: ¹ U. S. Bureau of Labor Statistics. Data include Federal construction projects. ² Local power companies. ³ Illinois Department of Revenue. Data are for September, 1952, the most recent available. Comparisons relate to August, 1952. ⁴ Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. ⁵ Local post office reports.

^a Total for cities listed.

^b Moline only.

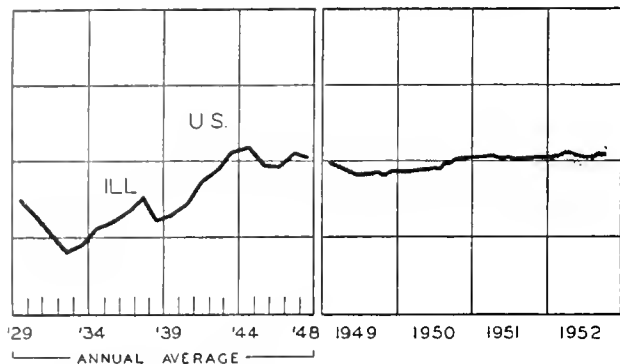
^c Includes immediately surrounding territory.

n.a. Not available.

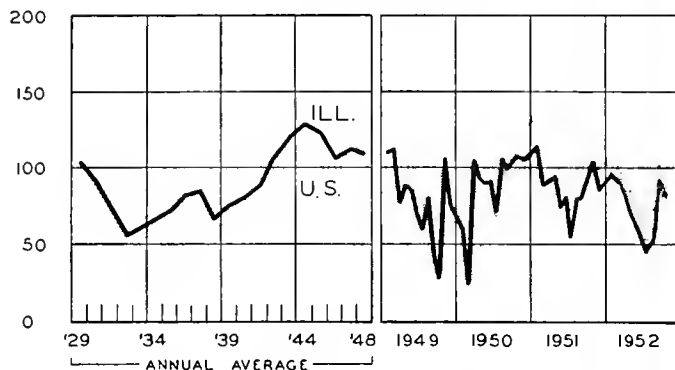
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

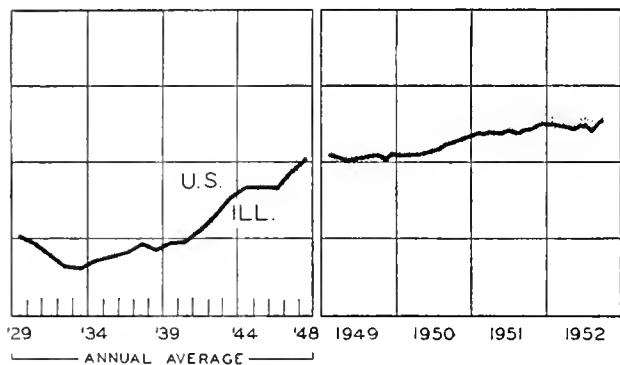
EMPLOYMENT - MANUFACTURING



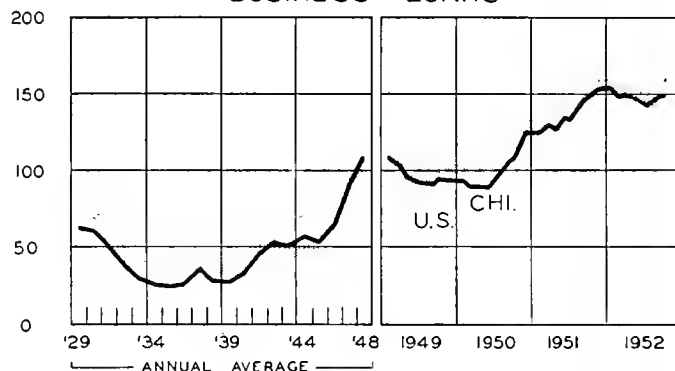
COAL PRODUCTION



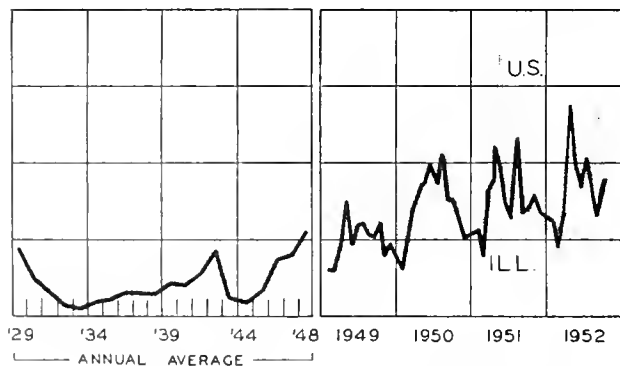
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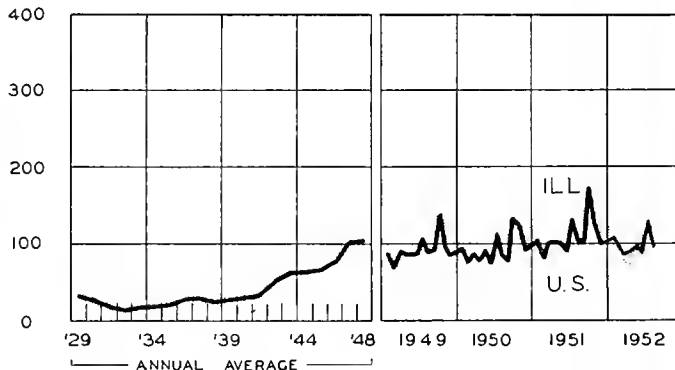
BUSINESS LOANS



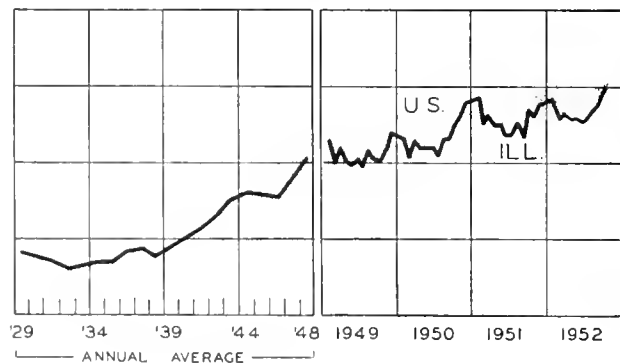
CONSTRUCTION CONTRACTS AWARDED



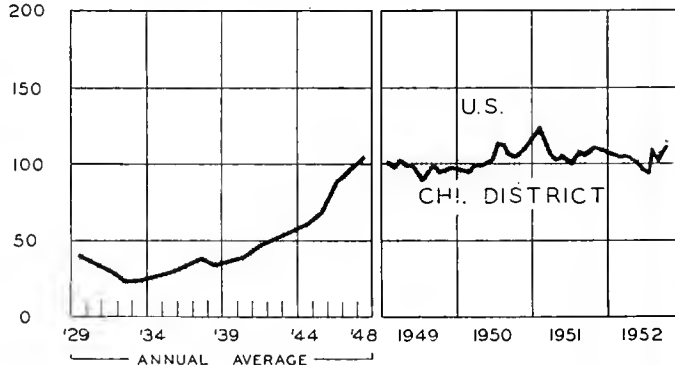
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES



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